

<p style="text-align: center;">K-12 Subcommittee Report to the Indiana Government Efficiency Commission November 2004</p>
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Executive Summary

I. Overview

Sustainable living wage employment in the 21st Century will require success in further education. To prepare our citizens for work and life, Indiana's K-12 schools must now educate virtually all of their students to succeed at, persist through and graduate from some form of post-secondary learning. The drivers are multiple: a globally competitive economy; a technology-driven world; and a knowledge-immersed society. These forces are combining to lift the standard of living for regions whose citizens are educated and lower it for those whose citizens are not. Indiana's economic viability and quality of life derive from the level of education of its citizens, which now depends on the education and training they receive *after* high school. If Indiana is to sustain and improve the standard of living of its citizens, they must achieve a higher level of education, one that matches global needs and expectations.

Indiana's economy and quality of life will derive from the results of its post-secondary education systems, which depend on the results of its K-12 system. Far too many of our K-12 graduates require remediation before they can begin post-secondary education or training. Of every 100 Indiana 9th graders, only 68 graduate from high school, 41 go on to post-secondary education, 31 persist to their second year and 21 graduate within six years. We expect that the Higher Education Subcommittee will note the obvious importance of virtually all students completing high school with a level of educational achievement that truly prepares them to succeed in, persist through and graduate from higher education, be it a two-year degree from a community college, a four-year degree from an undergraduate institution or an advanced degree from a research university.

Whether students plan to go to college or work, they need the same and more rigorous K-12 education. Effective requirements for success in post-secondary education and in work have now merged. For those not proceeding directly to higher education, the requirements for success in training in advanced manufacturing, agriculture or logistics or for completion of an apprenticeship in most trades now require the same preparation as that to succeed in post-secondary education. As ACT noted recently, quoting from research and from the American Diploma Project of Achieve (created in part by the National Governors Association): "College readiness should be an expectation not only for traditional college-bound high school students, but for all students at the high school level. ... 'Studies of the skills and knowledge that employers need in the workplace show with increasing clarity that their expectations look very much like those in higher education.' ... 'No longer do students planning to go to work after high school need a different and less rigorous curriculum than those planning to go to college.'"

Indiana's developing K-12 education policy is beginning to address this reality. The Education Roundtable has recently recommended that Core 40 (strong preparation in English, Math, Science and History) as the state's core curriculum for virtually all students and to base the state's diploma requirements on completion of that curriculum; it has also endorsed basing admission to and scholarships for post-secondary education on completion of that more rigorous, achievement-focused curriculum. Its logic reflects the need for an education system that ensures the vast majority of students successfully complete education beyond high school.

Our K-12 schools must change to drive improved achievement for all students. That mandate cannot be executed without material changes in Indiana's K-12 educational environments. To improve achievement, schools need the freedom and flexibility to pursue it. There is no single answer, no simple formula. The process of building the capacity for improved teaching and learning will vary across educators, schools and communities. Efforts will refocus schools on performance and educators on continuing development to give students the rigor, relevance and relationships that will prepare them for success in further education, work and life. Those efforts will rise in new school environments and even in new schools. Educational models that prepared post-war students for labor-intensive work in a simpler age will not prepare millennial students for knowledge-intensive work in a more complex one.

The system frustrates changes that drive performance. Over the decades, federal requirements, Indiana's legislative, regulatory and contractual mandates and demands and the terms of local collective bargaining contracts have grown into a critical mass that stifles capacity, prioritizes expectations of conformance over achievement and creates a compliance mind-set where a performance mind-set is needed. Based on review of fiscal trends and listening to those in the field accountable for results, higher achievement has been frustrated, not aided, by both the direction of our collective spending and restrictions on its use. Our system of laws, regulations and governance habits is neither clear in the mandate, effective in the allocation, nor efficient in the use of the substantial growth in funding for K-12 education. We find the system inverted: Where we would expect to find accountability for results matched with flexibility in its pursuit, we hear of restriction and regulation; where we might see financial analysis to assist in efficient use, we find only financial audit; where we might find support for a culture of performance, we find the habits of expected compliance.

Schools should be freed for flexibility in pursuit of achievement. Local leaders and educators must push up against the crushing weight of this complex thicket. Despite the expected breadth and occasional conflict in their perspectives, the input we received from school boards, superintendents, business managers, principals, and teachers (and teacher associations) was entirely consistent in two conclusions: they understand and accept the mandate for higher levels of student achievement (this is why they teach), but they need a new system in which to work that aligns resource allocation and use with their achievement mandate. If their mandate for achievement is clear and their financial resources are limited, their operational flexibility and freedom to create expectations of achievement and a culture of performance must be re-established.

The enormous rate of recent growth in Indiana's all-in K-12 spending – 250% faster than inflation, 16.5 times faster than the growth in our student population – cannot continue, and yet higher achievement for all must be gained. Our K-12 schools must face the financial realities of their state and communities. Indiana is in a state of fiscal crisis and will be in a continuing state of fiscal constraint. It is entirely reasonable to assume that there will be no more than the same, and perhaps less, funding available for K-12 education in the next and near-term biennia. Indiana's K-12 schools thus must plan to improve their educational results materially while managing their financial resources tightly, to do more with the same or less. They must be more effective in allocating and more efficient in using the resources provided to them.

Taxpayer support for K-12 funding – rising faster than Hoosiers' personal income – has been generous to say the least, but its use has been pulled away from the mission. As K-12 school spending has exploded, a hard focus on achievement has been lost. No one has been responsible to analyze Indiana's actual expenditures on K-12 education. Over the decades, and particularly in the last ten years, Indiana's K-12 spending has risen far beyond inflation. The balance of those taxpayer funds has not been shifted toward instruction or achievement. It has been toward buildings, benefits and special populations. Indiana has not been spending its K-12 resources consistently with an achievement mandate. That should change.

Opportunities for cost savings should be seized. At the request of the Subcommittee, Fox River included in its analysis of Indiana's K-12 expenditure trend lines from 1993 to 2003 an exhaustive review of potential areas for efficiencies and cost savings. Focusing on four primary strategies – local district self improvement, centralized functions under the service centers, outsourcing of non-instructional functions, and statewide bidding of contracts for employee benefits, Fox River estimated annual savings of \$337 to \$479 million. These do not include other possible savings, for example, from efficiencies gained by deregulating and removing restrictions from the school environments or costs reduced by zero-based budgeting and analysis aligned to rigorous baselines.

A clear mandate to focus on achievement, flexibility to establish cultures of high expectations and performance, and effective allocation and efficient use of resources are vital. Our basic recommendation is that **Indiana** – faced now with both critical need for higher achievement and ongoing fiscal constraints – **must be intentional about**

- **A hard focus on student achievement** as the priority use for available funds;
- **New flexibility for schools** to drive a **culture of performance** to lift achievement;
- **A constant search for effective and efficient use** of the taxpayers' money.

Indiana has both the need and the opportunity to invert the logic that has been applied to our schools. It is clear from reviewing the analysis of K-12 spending in Indiana and from listening to the educators in the field responsible for results that Indiana (as perhaps much of the nation) has had the process backwards:

- Our regulatory superstructure – from the Legislature to the DOE to the collective bargaining table – has been focused on telling schools and educators how to spend their money and how to allocate their time and other resources;
- We spend almost no time or resources analyzing how money actually has been spent; and
- We spend too little time and resources evaluating the results of the schools' efforts.

Our recommendations below may be summarized into six broad categories

- 1. Establish clear priorities and persistent expectations for student achievement**
- 2. Make funding simple, predictable & aligned to achievement**
- 3. Give schools maximum flexibility to focus on achievement**
- 4. Support achievement, efficiency and analysis**
- 5. Seek efficiencies everywhere**
- 6. Stop dictating inputs and let schools start driving results**

We respectfully recommend that Indiana stop telling schools how to spend money and start analyzing what results actually are produced – in student achievement (are we as effective as we could be in preparing our students for success in post-secondary education and work?) and in use of taxpayer resources (are we as efficient as we could be?).

Our districts and their schools face the challenge of using severely limited resources to improve achievement to unprecedented levels for the vast majority of students. This is not the time to tinker; it is the time to overhaul. Indiana, from the State House to the classroom, must realign how it allocates and uses the scarce financial resources entrusted by the state's taxpayers to educate the precious young lives who are Indiana's future. We must not waste either.

II. Summary of Conclusions

Effective and Efficient Expenditures

A. Indiana Is In Fiscal Crisis and Will Continue To Experience Fiscal Constraint

B. Basic Trends In Indiana's K-12 Educational Expenditures, 1993-2003

1. In '93-'03, our all-in K-12 spending grew 69%, from \$5.47 to \$9.28 Billion per year
2. Taxpayers paid \$9,578 per student (ADA) per year in 2003 versus \$5,897 in 1993
3. By 2003, total spending has outgrown inflation and student growth by \$2 Billion per year
4. Our K-12 spending has moved away from instruction
5. Our instructional spending has moved away from regular core instruction
6. We have more K-12 employees, but fewer of them work directly with students

C. Factors Contributing To Indiana's Rapidly Increasing K-12 Expenses

1. Indiana K-12 educators rank 6th or 7th in the country in salary relative to taxpayers
2. The cost of Indiana's benefits for K-12 personnel grew 130% from 1993 to 2003
3. From 1993 to 2003, total compensation costs (salaries and benefits) for K-12 personnel grew 63.5%, 2.3 times inflation and 1.5 times faster than Hoosiers' personal income
4. Indiana's K-12 operating expenses grew at twice the rate of inflation
5. Indiana has prioritized investments in facilities
6. Expenses for special programs, textbooks and athletic coaches have jumped
7. Indiana schools face a web of legislative and regulatory mandates and restrictions
8. Indiana's decision processes, from legislation to collective bargaining, drive up costs
9. Indiana's school district structure weighs against efficiency

D. Issues In Financial Analysis and Management

1. No one is responsible to analyze Indiana's K-12 expenditures
2. The appropriation process seems void of analysis or alignment to strategy
3. Actual results are hidden under dispersed authority without accountability
4. The process denies schools certainty as to resource availability year-to-year
5. Schools cannot manage their finances for the long-term
6. Districts and schools lack financial planning tools common in the private sector

Achievement That Prepares Students For Post-Secondary Education And Employment

E. Indiana's Educational Realities

1. Indiana must educate virtually all students to a higher level of achievement
2. National focus is shifting to accountability, flexibility, innovation and performance
3. Indiana's K-12 schools must lift achievement with the same or fewer resources

F. Factors Frustrating Higher Student Achievement In Indiana

1. Laws and regulations breed control and compliance, not performance and innovation
2. Cumulative contract terms frustrate flexibility, accountability and performance
3. Many educators have no mandate to upgrade their knowledge and pedagogy
4. Special education requirements divert resources, attention and time on task
5. Indiana's student assessment system is incomplete, ineffective and interfering
6. Facing the effects of misdirected inefficient spending, districts cut critical resources
7. Priority of professional development and technology is difficult to find

III. Summary of Recommendations

A. More Effective Governance And Support

1. Unify all K-12 education and related functions and authority into DOE
2. Eliminate functions that are not directly focused on achievement by K-12 students
3. Flip DOE from compliance to support for achievement, flexibility and efficiency

B. More Effective and Efficient Use Of Taxpayer Resources

1. Establish clear priorities and persistent expectations for student achievement
2. Make funding simple, predictable and aligned to achievement
 - a. Shift to baseline per-pupil funding with complexity adjustments
 - b. Eliminate budgetary silos to enable local decisions
 - c. Provide predictable state level funding to support long-term decisions by districts
 - d. Reward instructional results that improve student achievement

3. Give schools maximum flexibility to focus on achievement
 - a. Repeal statutes and regulations to create flexibility in the school environment
 - b. Amend PL 217 to eliminate accumulated contract restrictions on performance
 - c. Move ISTEP to the end of the school year
 - d. Seek a new approach to special education with the federal government
 - e. Deal creatively with the realities of English as a second language
4. Support achievement, efficiency and analysis
 - a. Learn from innovations and creative approaches in Indiana and elsewhere
 - b. Encourage and support the development, importation and use of new models
 - c. Improve access to leadership and teaching talent
 - d. Reinforce teaching as a profession and professional development as an expectation
 - e. Create and fund a coherent and sustained strategic K-12 technology plan
5. Seek efficiencies everywhere
 - a. Fox River recommendations
 - i. Decisions by districts and schools – Self-improvement
 - ii. Decisions by districts – Restructure to centralize functions in service centers
 - iii. Decisions by districts (or service centers) – Outsource to improve results
 - iv. Decisions statewide – Bidding of employee benefits
 - b. Review consolidation of districts or functions (but keep schools small)
 - c. Stop the facilities arms race
 - d. Take advantage of possible cooperative approaches
 - e. Reward operational results that improve efficiency
6. Stop dictating inputs and let schools start driving results

C. Improved Financial Analysis And Reporting Align analysis to rigorous baselines

1. Align analysis to rigorous baselines
2. Create a new K-12 financial management system
3. Restructure the K-12 chart of accounts to support analysis, planning and reporting
4. Provide tools for financial planning and analysis with common software and training
5. Utilize common, understandable means and methods for reporting financial results
6. Require annual local analysis and biennial state analysis of expenditures

D. Redirect All Savings To Drive Achievement Or Return Them To The Taxpayers

Report of the

Subcommittee On K-12 Education

Volume I -- Recommendations

Submitted to the

Indiana Government Efficiency Commission

November 2004

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Appreciation

We listened to and learned from DOE, expert analysts, and educators in the field. Our conclusions were enabled by three primary sources:

- Data and information provided, gathered, compiled and explained by Jeff Zaring, Patty Bond, Bill Riley, Dwayne James and Bob Marra from the Indiana Department of Education and Chuck Mayfield from the Legislative Services Agency;
- The fact-based analysis of Indiana's K-12 school finances done by Sheree Speakman, Larry Maloney and Jay May of Fox River Learning, Inc. (now Edmin.com, Inc.); and
- Input from listening sessions with many school board members, superintendents, business officers, principals and school leaders, union leaders and classroom teachers, the people on the front lines of education in our K-12 schools.

The officials from DOE and LSA openly and forthrightly supported our inquiries. They provided us with such expense data as Indiana maintains; provided Fox River with the information they needed; and responded to inquiries promptly, effectively and with good spirit.

Fox River was strictly factual, bringing professional analysis to our aid. In collaboration with officials from DOE, and using their In\$ite[®] analytical tools, they gave us facts – hard data – that illuminated the system's trend lines and their effects. Drawing on their non-partisan work for the federal and many state governments and school districts across the country, they also gave us numerous ideas for more efficient spending. They laid out the facts and their ideas in a manner that may be mined as a resource in the work to come.

The educators from the field to whom we listened helped immensely. They had clear perspectives and good ideas. They shared a commitment to educating Indiana's students to prepare them for success in a changing world and a frustration with a financial and regulatory system that in myriad ways seems to thwart their efforts. They did not always agree with each other, but collectively they understood the fiscal realities and challenges facing the state, and they had notions, reflected here, how to make more effective and efficient use of the resources available. We thank them for their time and their input.

We applaud those who strive to educate the youth of Indiana for success in life and work. We hope these recommendations will help give them more focus, flexibility, effectiveness and efficiency in their efforts on behalf of the students and the taxpayers they serve.

Introduction

We were tasked to look for efficiencies in spending in K-12 education. We adopted two perspectives: the taxpayers who fund our K-12 schools and the students who are the intended beneficiaries. We looked from the perspective of the taxpayers, to the system that invests their money, to the educators who work in that system, to the students they teach.

We made two assumptions: first, that Indiana's K-12 schools must educate a far broader range of their students to a far higher level of achievement; and second, that given the state's current budget deficits and anticipated ongoing fiscal constraint, the schools would have the same or fewer financial resources to do so.

We focused on uses, not sources. To verify data, Fox River examined both revenue and expense. Our inquiry addressed expenditures without regard to source. We note that gains could be made in simplifying fund flows from federal, state and local sources for use by districts and schools.

We took an all-in approach to Indiana's K-12 expenses. We did not look solely at the state-level General Fund, or at uses of local property taxes, or at federal funds flowing to Indiana. We looked at it all together, so that we could, in essence, evaluate the state as if it were one large school system and those in the State House could see the aggregate and cumulative results their ongoing decisions have created.

We retained an independent expert to analyze the state's K-12 spending data. Fox River Learning, Inc. (now Edmin.com, Inc.) has provided financial analysis to the federal government, to multiple state governments and to many local school districts across the country. Their full methodology is explained in their report. They did a comprehensive review of 216,577 lines of expenditures provided by DOE from our districts for school fiscal years 1993, 1998 and 2003. They used Indiana's specified accounting and reporting guidelines for local school corporations, mapping the expenditures to functional reporting categories and analyzing resulting cost patterns and trend lines in detail. To identify opportunities for savings, they compared Indiana's 2003 expenditures with those of two other states where accounting and reporting standards are consistent with those in Indiana. They provided areas of possible efficiencies from their prior research around the country. Their focus was on efficiencies in expense, while ours has also been on effectiveness in allocation and use.

Our recommendations are directional, not prescriptive. We see this report as the beginning of a process to enable more effective and efficient decisions in how schools use available taxpayer funds to build higher student achievement. We have asked Fox River for availability to come to Indiana and review their report and recommendations. These issues are necessary, essential even, but they rise in an historically complex context. We look forward to further thinking and movement to achievement-focused, performance-driven, efficiency-based results.

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- 4. Support achievement, efficiency and analysis**
- 5. Seek efficiencies everywhere**
- 6. Stop dictating inputs and let schools start driving results**

We respectfully recommend that Indiana stop telling schools how to spend money and start analyzing what results actually are produced – in student achievement (are we as effective as we could be in preparing our students for success in post-secondary education and work?) and in use of taxpayer resources (are we as efficient as we could be?).

Our districts and their schools face the challenge of using severely limited resources to improve achievement to unprecedented levels for the vast majority of students. This is not the time to tinker; it is the time to overhaul. Indiana, from the State House to the classroom, must realign how it allocates and uses the scarce financial resources entrusted by the state's taxpayers to educate the precious young lives who are Indiana's future. We must not waste either.

II. Summary of Conclusions

Effective and Efficient Expenditures

A. Indiana Is In Fiscal Crisis and Will Continue To Experience Fiscal Constraint

B. Basic Trends In Indiana's K-12 Educational Expenditures, 1993-2003

1. In '93-'03, our all-in K-12 spending grew 69%, from \$5.47 to \$9.28 Billion per year
2. Taxpayers paid \$9,578 per student (ADA) per year in 2003 versus \$5,897 in 1993
3. By 2003, total spending has outgrown inflation and student growth by \$2 Billion per year
4. Our K-12 spending has moved away from instruction
5. Our instructional spending has moved away from regular core instruction
6. We have more K-12 employees, but fewer of them work directly with students

C. Factors Contributing To Indiana's Rapidly Increasing K-12 Expenses

1. Indiana K-12 educators rank 6th or 7th in the country in salary relative to taxpayers
2. The cost of Indiana's benefits for K-12 personnel grew 130% from 1993 to 2003
3. From 1993 to 2003, total compensation costs (salaries and benefits) for K-12 personnel grew 63.5%, 2.3 times inflation and 1.5 times faster than Hoosiers' personal income
4. Indiana's K-12 operating expenses grew at twice the rate of inflation
5. Indiana has prioritized investments in facilities
6. Expenses for special programs, textbooks and athletic coaches have jumped
7. Indiana schools face a web of legislative and regulatory mandates and restrictions
8. Indiana's decision processes, from legislation to collective bargaining, drive up costs
9. Indiana's school district structure weighs against efficiency

D. Issues In Financial Analysis and Management

1. No one is responsible to analyze Indiana's K-12 expenditures
2. The appropriation process seems void of analysis or alignment to strategy
3. Actual results are hidden under dispersed authority without accountability
4. The process denies schools certainty as to resource availability year-to-year
5. Schools cannot manage their finances for the long-term
6. Districts and schools lack financial planning tools common in the private sector

Achievement That Prepares Students For Post-Secondary Education And Employment

E. Indiana's Educational Realities

1. Indiana must educate virtually all students to a higher level of achievement
2. National focus is shifting to accountability, flexibility, innovation and performance
3. Indiana's K-12 schools must lift achievement with the same or fewer resources

F. Factors Frustrating Higher Student Achievement In Indiana

1. Laws and regulations breed control and compliance, not performance and innovation
2. Cumulative contract terms frustrate flexibility, accountability and performance
3. Many educators have no mandate to upgrade their knowledge and pedagogy
4. Special education requirements divert resources, attention and time on task
5. Indiana's student assessment system is incomplete, ineffective and interfering
6. Facing the effects of misdirected inefficient spending, districts cut critical resources
7. Priority of professional development and technology is difficult to find

III. Summary of Recommendations

A. More Effective Governance And Support

1. Unify all K-12 education and related functions and authority into DOE
2. Eliminate functions that are not directly focused on achievement by K-12 students
3. Flip DOE from compliance to support for achievement, flexibility and efficiency

B. More Effective and Efficient Use Of Taxpayer Resources

1. Establish clear priorities and persistent expectations for student achievement
2. Make funding simple, predictable and aligned to achievement
 - a. Shift to baseline per-pupil funding with complexity adjustments
 - b. Eliminate budgetary silos to enable local decisions
 - c. Provide predictable state level funding to support long-term decisions by districts
 - d. Reward instructional results that improve student achievement
3. Give schools maximum flexibility to focus on achievement
 - a. Repeal statutes and regulations to create flexibility in the school environment
 - b. Amend PL 217 to eliminate accumulated contract restrictions on performance
 - c. Move ISTEP to the end of the school year
 - d. Seek a new approach to special education with the federal government
 - e. Deal creatively with the realities of English as a second language

4. Support achievement, efficiency and analysis
 - a. Learn from innovations and creative approaches in Indiana and elsewhere
 - b. Encourage and support the development, importation and use of new models
 - c. Improve access to leadership and teaching talent
 - d. Reinforce teaching as a profession and professional development as an expectation
 - e. Create and fund a coherent and sustained strategic K-12 technology plan
5. Seek efficiencies everywhere
 - a. Fox River recommendations
 - i. Decisions by districts and schools – Self-improvement
 - ii. Decisions by districts – Restructure to centralize functions in service centers
 - iii. Decisions by districts (or service centers) – Outsource to improve results
 - iv. Decisions statewide – Bidding of employee benefits
 - b. Review consolidation of districts or functions (but keep schools small)
 - c. Stop the facilities arms race
 - d. Take advantage of possible cooperative approaches
 - e. Reward operational results that improve efficiency
6. Stop dictating inputs and let schools start driving results

C. Improved Financial Analysis And Reporting

1. Align analysis to rigorous baselines
2. Create a new K-12 financial management system
3. Restructure the K-12 chart of accounts to support analysis, planning and reporting
4. Provide tools for financial planning and analysis with common software and training
5. Utilize common, understandable means and methods for reporting financial results
6. Require annual local analysis and biennial state analysis of expenditures

D. Redirect All Savings To Drive Achievement Or Return Them To The Taxpayers

CONCLUSIONS: EFFECTIVE AND EFFICIENT EXPENDITURES

A. Indiana Is In Fiscal Crisis And Will Continue To Experience Fiscal Constraint

- The Governor and the 2005 Legislature face a budget deficit and deferred obligations
- Municipalities across Indiana have budget concerns; some face budget deficits
- There is no reason to believe the fix will be without pain or quick to be completed
- There is no reason to believe Indiana's K-12 school budgets will not be affected

B. Basic Trends In Indiana's K-12 Educational Expenditures, 1993 To 2003

1. In '93-'03, our all-in K-12 spending grew 69%, from \$5.47 to \$9.28 billion per year

- In fiscal year 2003, Indiana spent all-in on K-12 education,
- All in, in 1993 Indiana spent \$5,477,000,000 on K-12 education,; in 2003, \$9,275,000,000
- As inflation rose 27.3%, Indiana's K-12 spending grew 69.3%

2. Taxpayers paid \$9,578 per student (ADA) per year in 2003 versus \$5,897 in 1993

- In 1993 Indiana had 928,896 K-12 students (ADA); in 2003 it had 968,317
- As Indiana's K-12 student population grew 4.2%, Indiana's K-12 spending grew 69.3%

3. By 2003, total spending has outgrown inflation and student growth by \$2 Billion per year

- Indiana's student population grew by 4.2%; inflation was 27.3%; their joint increase is 32.6%
- A 32.6% growth rate from \$5.477 Billion (1993) would produce \$7.265 Billion spent in 2003
- Actual spending in 2003 was \$9.275 Billion, or roughly \$2 Billion per year more

4. Our K-12 spending has moved away from instruction

- Instructional spending grew 45.1%, while all other spending grew 86.5%
- Instructional spending fell from 41.6% to 35.6% of total K-12 spending
- All other spending grew from 58.4% to 64.3% of total K-12 spending
 - Facilities spending grew 84.4%, from 7.3% to 8.0% of total spending
 - Debt Service spending grew 125.0%, from 6.4% to 8.5% of total spending
 - Lease/Rental of Buildings grew 147.2%, from \$248 to \$613 million
 - Employee Benefits spending grew 130%, from 12.4% to 16.8% of total spending

5. Our instructional spending has moved away from regular core instruction

- Regular instruction fell from 35.7% 29.1% of total spending
- Regular instruction fell from 85.9% to 81.8% of instructional spending

- Elementary through high school instruction fell from 82.1% to 77.7% of all instructional expense
- Special programs (mental handicap, physical and emotional impairment, special education and similar special populations) grew from 11.2% to 14.8% of Instructional spending
 - Special programs grew by 86.4%,
 - Other payments related to special education (administration and services) grew in amounts ranging from 79.6% to 100.2%
- Remediation payments grew from 0% to 1.2% of all spending
- Gifted & Talented payments fell from 0.7% to 0.5% of all spending
- Payments to athletic coaches grew by 91.5%.

5. We have more K-12 employees, but fewer of them work directly with students

- Based on 2000 data, Indiana has 5.7% more K-12 employees than the nation, on average.
 - Indiana employees 128.2 full-time equivalent employees (FTEs) per 1000 students, while the national average is 121.3.
- But Indiana has fewer teachers
 - 46.7% of Indiana personnel are teachers; the national average is 51.6%
 - 14.0% are instructional aides; the national average is 11.2%
- And Indiana has fewer guidance counselors and student support staff
 - 1.4% are guidance counselors; the national average is 1.7%
 - 1.6% are student support staff; the national average is 3.0%
- And Indiana has more school and other support services staff
 - 1.2% are instructional coordinators; the national average is 0.7%
 - 7.3 % are library or school support staff; the national average is 5.5%
 - 24.2% are other support services staff; the national average is 20.0%

The amount of taxpayer funds spent on K-12 education in Indiana has grown well in excess of student population, inflation and their combined effect. The rate in growth of actual spending between 1993 and 2003 exceeded the rate derived from the combined impact of student population and inflation such that the difference in 2003 was \$2 Billion per year.

As the education policy of the state and nation has been focusing hard on the student – moving toward preparing virtually all students for success in some form of post-secondary learning and the now parallel requirements of the workplaces to which students will go, the direction of education spending in Indiana seems to be moving in the opposite direction.

C. Factors Contributing To Indiana's Rapidly Increasing K-12 Expenses

1. Indiana K-12 educators rank 6th or 7th in the country in salary relative to taxpayers

- In relation to taxpayer per-capita personal income our teacher salaries rank 6th nationally
- Adjusted for cost-of-living our teacher salaries rank 7th nationally
- In relation to annual private sector earnings, Indiana teacher salaries rank 7th nationally
- Indiana's ratio of educator employee benefit costs to salaries is 33.5%, higher by 3.6% than the national average for state and local government employees of 29.9%

With salaries that rank 6th or 7th in the nation in relation to cost-of-living, private sector earnings and per-capita personal income, and employee benefit costs 3.6% higher than the national average, our educators are among the highest compensated in the country.

2. The cost of Indiana's benefits for K-12 personnel grew 130% from 1993 to 2003

- Costs for the collection of employee benefits – Group Insurance, teachers Retirement Fund, Severance and Early Retirement Pay, Social Security and other related insurance) – have grown 130%, 4.7 times inflation
 - Group Insurance (including health insurance) annual expense has grown 143.2%
 - Teachers Retirement Fund annual payments have grown 287.1%
 - Severance and Early Retirement Pay has grown 2733.0%

3. From 1993 to 2003, total compensation costs (salaries and benefits) for K-12 personnel grew 63.5%, 2.3 times inflation and 1.5 times faster than Hoosiers' personal income

- From 1993 to 2003, inflation was 27.3%
- From 1992 to 2002, the average Indiana citizen's personal income grew by 46%.
- In that same time,
 - Indiana's K-12 salary costs grew 49.1%, 1.5 times inflation
 - Indiana's K-12 benefit costs grew 130.0%, over 4 times inflation
 - Total compensation (Salaries plus Benefits) grew by 63.5%, 2.3 times inflation
- This compensation generally is driven by length of service, not student achievement
- Salaries declined as a percent of total expenses from 57.1% to 50.3%, while employee benefits have grown from 12.4% to 16.8%; collectively they declined from 69.5% to 67.1% of total expenses
- This has negative effects on personnel recruitment and retention
 - Experienced teachers are expensive (at the top of negotiated salary scales, and bearing full benefits), diminishing their attractiveness to districts
 - Indiana's most expensive teachers also are often those with no obligation to continue their professional development (because they have life licenses)
 - The high costs of existing tenured, long-service teachers shift resources away from new entrants into teaching. This is true whether the new teacher comes from schools

of education or laterally. It makes Indiana schools non-competitive for such talent, all the more so where teachers of math and science in high demand are concerned.

- Young teachers are less expensive (at the bottom of negotiated salary scales affected by the shift in compensation to benefits), diminishing districts attractiveness to them
- As Indiana's fiscal fortunes ebb and flow, the professional growth of its young educators often is frustrated because they are so often subjected to layoffs

4. From 1993 to 2003, K-12 operating expenses grew at twice the rate of inflation

- Inflation was 27.3% from 1993 to 2003, while student population grew 4.2%.
- K-12 operating expense rose considerably faster.
 - Pupil transportation rose 61.3%, 2.3 times inflation, 14.6 times student growth
 - Food services rose 55.7%, twice inflation and 13 times student growth
 - Operations and maintenance of physical plant rose 51.0%, 1.9 times inflation
- The direct causes of these increases merit further investigation
 - Some may derive from each school district managing its own services
 - Some may derive from individual rather than cooperative agreements
 - Some may derive from the distances and complexities of transportation systems within 292 individual school districts
 - Some may derive from increased regulation by federal and state authorities
 - Some may derive from the natural effects of construction of many new facilities

5. Indiana has prioritized investments in facilities

- In 1993-2003, expenses for Facilities Acquisitions & Construction grew 84.4%, 3 times inflation
- Debt Services payments went up 125.0%, 4.6 times inflation. Of that,
 - Principal payments on debt rose 148.4% while interest payments declined 8.6%
 - The vast majority – payments for Lease or Rental – were up 147.6%
- This merits deeper investigation, because the decisions – while approved at the state level – vary across the districts
 - A few districts have student populations that are growing materially and are building to keep up
 - Some districts have declining student populations but are still investing in buildings
- When the state prioritizes facilities, its other expenses rise accordingly. In 1993, Indiana's expenditures for facilities, plant service operations & maintenance, pupil transportation, and food services were \$1.326 billion. By 2003 they had risen to \$2.172 billion, an increase of 63.7%, 2.3 times inflation

6. Expenses for special populations, textbooks and athletic coaches have jumped

- Expenses for Special Programs (mostly but not exclusively special education) have grown 86.4%, 3 times inflation and 20 times the growth in student population
- Textbook expense has grown 109.8%, 4 times inflation and 26 times student growth
- Payments to athletic coaches have grown 91.5%

7. Indiana schools face a web of legislative and regulatory mandates and restrictions

- The restrictions may have made sense in an era where far fewer students needed to meet today's higher standards, but they preclude best practices and best formats for creating a culture of performance and achievement
- Some of these are directly regulatory, from DOE, the State Board of Education or the Professional Standards Board (180 day school year, daily rate payments beyond 180 days, half-days for professional development)
- Some of these are contractual (limitations on assignments, limitations on the time teachers are in school or in contact with students, limitations on principals' visiting classes, limitations on addressing poor-performing teachers, leaves of absence during school, etc.)
- Some of these are indirectly regulatory, for example from the State Board of Accounts, which although it is not part of DOE controls resources by regulation
- The restrictions conflict with mission and expectations of teacher performance and student achievement under NCLB and PL 221
 - The combination of the time (often measured in years) and expense required in Indiana to remove incompetent teachers (who may be few in number but always large in impact) from the classroom is a severe deterrent to building a collaborative, high-performing faculty committed to preparing virtually all students for success in post-secondary education (by comparison, in Kentucky the process takes 90 days)
- Leaders of individual schools virtually never have the freedom to construct with their faculties their own optimal learning environments and school cultures to drive educator dedication and performance and student commitment and achievement

8. Indiana's decision processes, from legislation to collective bargaining, drive up costs

- Listening to those in the field responsible for acquisition of services noted that Indiana's regulation of decision processes actually increases costs. They suggested that
 - Bid laws and purchase thresholds are too complex
 - The requirements emphasize formal process over effective negotiation
 - The requirements may negate local community input
 - The requirements ignore developing innovations in school environments around the country, in favor of a standardized formula for space and use
 - The availability of the Internet as a price research tool and as a bid management mechanism enables quality and price competition over a different magnitude
 - Applicable bidding requirements favor larger and unionized companies
 - Any work over \$150,000 must be prevailing wage
 - This can have the effect of driving the work out of the local community
- Similarly, Indiana districts do not generally engage in consolidated purchasing or cooperative services
 - This has the effect of multiple individual negotiations without the benefits of collaborative thinking, the leverage of scale or in some cases the participation of professional management
 - This can be the case in purchases ranging from simple supplies to special education services

- Some of these relate to a reporting and approval bureaucracy that makes decisions and exchanges data in a manner that impedes efficiency and drives costs up
 - Some of these relate to school activities (15 day attendance counts that must be certified by the district superintendent)
 - Others relate to collateral functions (driver education reports, school transportation reports, neither of which are funded by the state)
 - Some relate to decisions made by administrative agencies with subject matter jurisdiction generally but without cause to recognize unique circumstances in districts or schools (building inspectors, fire marshals, etc.) and whose decisions can impose substantial added costs, restrict flexibility and subvert instructional considerations
 - The budget approval process is such that the legislature often imposes new mandates and costs on districts immediately after the districts have received Department of Local Government Finance approval for their budgets

9. Indiana's school district structure weighs against efficiency

- We heard from all sources the local community, political school board and extracurricular (principally athletic) reasons for a state of Indiana's size to have some 290 independent school districts. Looking at function and not such other factors, we can conclude, as did those to whom we listened, that efficiencies can be found in fewer districts or at least in fewer independent functions within the districts.
- Some districts have begun to consolidate functionally out of financial necessity. They tend to be smaller and more rural, and they see in functional consolidation multiple benefits:
 - Reduced overhead, general and administrative expense
 - Reduced operating expense and greater operating efficiencies
 - Increased bargaining power with external vendors and service providers
 - Increased scale to procure resources unavailable individually, including professional development for educators and increased course offerings for students
- Other districts remain unto themselves, sacrificing such efficiencies for local control.

D. Issues In Financial Analysis and Management

1. No one is responsible to analyze Indiana's K-12 expenditures

- There is neither a legislative mandate, allocated resources nor State House habit to analyze the K-12 expenditures by Indiana at the state, district or school level.
- Indiana's reporting structures for K-12 expenditures are set up to enable financial audits by the State Board of Accounts. Once that accounting audit is done, the process ends. DOE is responsible to collect information for compliance auditing, not analysis. Our inquiry revealed no analysis for efficiency or effectiveness in that exercise, only confirmation that taxpayer funds once appropriated to be spent from Fund A on Object B in Program C are so spent.
- There is no consideration of the allocation of resources to actions that drive educational results. There is no linkage of expenditures to educational results of any kind.
- There is no standard financial reporting package for schools, districts and state

- The current K-12 chart of accounts is inadequate to support analysis; it
 - Does not support fact-based resource allocation decision-making
 - Does not enable state oversight of funding impacts by school
 - Does not allow for efficient Federal reporting
 - Does not enable relational database use through disciplined data dimensions
 - Is not sufficiently specific and functional to support information needs
- Because there is no analysis:
 - Local districts and schools and their communities have no support through available financial analysis tools and are left to fend for themselves in attempting to derive clarity and meaning from their expenditures. They don't have transparent visibility to how their own resources are being spent.
 - There is no common set of analytical tools that can enable district or school leaders to compare their district or school expenditures in relation to external peer groups, norms or best practices. They don't know how effectively or efficiently their own resources are being spent.
 - Legislators, state officials, community leaders, school officials, staff, parents and taxpayers lack visibility to and understanding of expenditure trends, patterns and priorities. They don't know how, or how effectively or efficiently, their tax dollars are being spent.
- It is worth noting that our efforts were fully supported by DOE staff and input from K-12 personnel in the districts and schools and materially impeded by an adequate data bank of commonly developed and consistently referenced financial and related information. Everyone was helpful, but the data for deep analysis must be built.

2. **The appropriation process seems void of analysis or alignment to strategy**

- Our review of the process by which resources are allocated to schools, through the combination principally of legislative General Fund appropriations, secondarily through local school board property tax decisions and finally through federal funds, lead us to conclude that the processes in general proceed without coordinated analysis and without evident strategy.
 - We did not find evidence of analysis presented to the Legislature aligned to a broad strategic plan for education in the State.
 - We found evidence of occasional inquiry by individual legislators but no collective analysis.
 - The legislative process itself seems dominated by the issues of where the money comes from, how much of it there is and who gets how much of it. There is little evidence of a focus on how it is actually spent.
- The actions of the Indiana Education Roundtable since the late 1990s, discussed above, have proceeded in general without linkage to an overall strategic plan for K-12 education in the state.

3. **Actual results are hidden under dispersed authority without accountability**

- Allocation and expenditure of K-12 financial resources result from a mixture of decisions made at the local, state and federal level.

- Federal programs, state general appropriations and targeted programs, state administrative requirements, school board decisions, collective bargaining agreements and decisions by local school educators all direct taxpayer dollars to K-12 expenditures.
- The breadth of the dispersion of the authority to make spending decisions has created a layered web that hides the complex linkages from decision to expense and holds no one truly accountable for the path from expenditure to result.
- The spending pattern described above – in excess of both inflation and student population growth and off-line from preparing virtually all students for post-secondary education – permits the conclusion that where there is no clear ownership of, accountability for and visibility to expenditures, the direct result is both inefficient use and misdirection of funds away from mission.

4. The process denies schools certainty as to resource availability year-to-year

- Indiana currently has a dually disjointed financial process
 - On the one hand, the Legislature and the Department of Local Government Finance control revenue decisions but have limited control over expenditures
 - On the other hand, school boards control expenditure decisions but have limited control over revenue
 - Neither has direct accountability for effective allocation or efficient use
- Legislative tinkering – deferral of state payment obligations, delayed reassessment and property tax collections – frustrates districts' and schools' ability to draw on an expected level of cash flow
- The complex web of funding decisions – at the Legislature as to amount and restrictions on use, then at the school boards as to amount and restrictions on use – impose on school leaders variability and restrictions that frustrate planning for performance and achievement
- For school leaders focused on conditions for performance and achievement (including continuity of staff and program), decisions above the school level often are contradictory to mission, involving for example simultaneous building projects, program cuts and teacher layoffs
- The state's school budget process dominates districts' horizon each Summer and Fall, deflecting resources from pursuit of performance and achievement
 - It is very inefficient to require school boards to set their budget during the summer and then have the state re-adjust the rate later; the resulting effort by superintendents and boards to redo their budgets increases costs and frustrates effective financial planning
- Leaders of individual schools virtually never have control of their own budgets but remain at the mercy of the results of the political process in the legislature
- Education planning – at the state, district and school level – runs into the lack of predictability imposed by the process
- The separation of accounts (general fund from capital projects fund), while understandable, often leads school boards to use the CPF for buildings (because it is there) while struggling to retain staffing and adequate resources for achievement

5. Schools cannot manage their finances for the long-term

- As Fox River attempted to reconcile receipts, expenditures and cash balances for the state as a whole for 2003, it uncovered what we at first thought was a deficit of \$1.2 billion. Upon review with DOE, it became clear what happened: the combined effect of delays in the Legislature's new reassessment process (which therefore delayed tax receipts) and State House decisions to "balance" the state budget by deferring payment of current obligations to local districts until the following year had deprived local school districts of the current use of the \$1.2 billion, necessitating many of them to borrow funds in the open market, plus interest, until the funds due them finally were collected or released.
- We heard from those in the field responsible to direct and manage finances of the difficulties and inefficiencies inherent in the state's annual budgeting process for school districts and its biennial process for funding them.
 - Annual budgeting – in which school budgets are prepared, submitted, reviewed, adjusted, restated, resubmitted and finally approved, in a circular dialogue from the local schools and districts to the state and back – reflects a mentality of compliance without respect for best use of local districts' limited time and planning capacity.
 - Biennial funding – in which school budgets are effectively held hostage in the political process – makes the long-range planning that is crucial to develop and sustain the organizational capacity and culture essential to achievement virtually impossible.

6. Districts and schools lack financial planning tools common in the private sector

- There is no standardized requirement for how local districts maintain or analyze their financial expenditure data, other than to submit it to the state so that it fits with the state's required chart of accounts for audit (as opposed to analysis) purposes.
- The districts have been fending for themselves to use such financial tools as they choose and are able to identify and acquire, from effective accounting software to financial planning programs. Many smaller districts do no financial analysis; some larger ones do some.
- Where the private sector and much of the rest of the public sector has developed and uses financial analysis and planning tools, Indiana's K-12 sector has not.

CONCLUSIONS: ACHIEVEMENT THAT PREPARES STUDENTS FOR POST-SECONDARY EDUCATION AND EMPLOYMENT

E. Indiana's Educational Realities

1. Indiana must educate virtually all students to a higher level of achievement

- **Sustainable living wage employment in the 21st Century will require success in further education.** To prepare our citizens for work and life, Indiana's K-12 schools must now educate virtually all of their students to succeed at, persist through and graduate from some form of post-secondary learning. The drivers are multiple: a globally competitive economy; a technology-driven world; and a knowledge-immersed society. These forces are combining to lift the standard of living for regions whose citizens are educated and lower it for those whose citizens are not. Indiana's economic viability and quality of life derive from the level of education of its citizens, which now depends on the education and training they receive *after* high school. If Indiana is to sustain and improve the standard of living of its citizens, they must achieve a higher level of education, one that matches global needs and expectations.
- **Indiana's economy and quality of life will derive from the results of its post-secondary education systems, which depend on the results of its K-12 system.** Far too many of our K-12 graduates require remediation before they can begin post-secondary education or training. Of every 100 Indiana 9th graders, only 68 graduate from high school, 41 go on to post-secondary education, 31 persist to their second year and 21 graduate within six years. We expect that the Higher Education Subcommittee will note the obvious importance of virtually all students completing high school with a level of educational achievement that truly prepares them to succeed in, persist through and graduate from higher education, be it a two-year degree from a community college, a four-year degree from an undergraduate institution or an advanced degree from a research university.
- **Whether students plan to go to college or work, they need the same and more rigorous K-12 education.** Effective requirements for success in post-secondary education and in work have now merged. For those not proceeding directly to higher education, the requirements for success in training in advanced manufacturing, agriculture or logistics or for completion of an apprenticeship in most trades now require the same preparation as that to succeed in post-secondary education. As ACT noted recently, quoting from research and from the American Diploma Project of Achieve (created in part by the National Governors Association): "College readiness should be an expectation not only for traditional college-bound high school students, but for all students at the high school level. ... 'Studies of the skills and knowledge that employers need in the workplace show with increasing clarity that their expectations look very much like those in higher education.' ... 'No longer do students planning to go to work after high school need a different and less rigorous curriculum than those planning to go to college.'"
- **Indiana's developing education policy is beginning to address this reality.** The Education Roundtable has recently asked the State Board of Education to require Core 40

(strong preparation in English, Math, Science and History) as the state's core curriculum for virtually all students and to base the state's diploma requirements on completion of that curriculum; it has also endorsed basing admission to and scholarships for post-secondary education on completion of that more rigorous, achievement-focused curriculum. Its logic reflects the need for an education system that ensures the vast majority of students successfully complete education beyond high school.

2. **National focus is shifting to accountability, flexibility, innovation and performance**

- **Within Indiana and around the country, in traditional public schools and charter schools, educators are innovating and re-establishing school culture to support higher achievement.** There is literally an explosion of new school models, of innovative use of technology, of new means of teaching, of curricula and pedagogy. These developing models have principal distinctions: they focus on rigor, relationship and relevance; they are the antithesis of the assembly line school; and they support aspirations by all students, focusing them on success after their K-12 years. They are educator-driven, for the most part, and they require flexibility and commitment by educators.

3. **Indiana's K-12 schools must lift achievement with the same or fewer resources**

- **Our K-12 schools must change to drive improved achievement for all students.** That mandate cannot be executed without material changes in Indiana's K-12 educational environments. To improve achievement, schools need the freedom and flexibility to pursue it. There is no single answer, no simple formula. The process of building the capacity for improved teaching and learning will vary across educators, schools and communities. Efforts will refocus schools on performance and educators on continuing development to give students the rigor, relevance and relationships that will prepare them for success in further education, work and life. Those efforts will rise in new school environments and even in new schools. Educational models that prepared post-war students for labor-intensive work in a simpler age will not prepare millennial students for knowledge-intensive work in a more complex one.
- **This requires a momentous shift in focus, increase in rigor and flexibility in resources.** All schools in Indiana are in the process of moving to the expectation that they will prepare virtually all their students for success in, persistence through and completion of post-secondary education. They are in a time of current and permanent focus on educational achievement. They need the mandate to focus their available resources on achievement. They need the flexibility to make fresh and more effective use of their available resources, most particularly their educators. They need the support of a state system that enhances their capacity, supports their innovation and initiatives, and enables their effective allocation and efficient use of resources, so that they can make progress despite this time of current fiscal crisis that will be followed by a time of permanent fiscal constraint.
- In sum, Indiana's K-12 educational system must achieve higher student achievement with relatively the same or even fewer resources. To do so, we must make difficult but effective choices and establish clear and effective priorities. If we zero base Indiana's K-12 education spending, we must prioritize student achievement over all else. That priority must be supported by how we allocate and manage our available educational resources.

F. Factors Frustrating Higher Student Achievement In Indiana

1. Laws and regulations breed control and compliance, not performance or innovation

- A common theme among those to whom we listened was the disconnect between the expectations and habits of the State House and the expectation of achievement from K-12 schools
- This played out in various ways
 - The State House – the Legislature, the DOE and the State Board of Education and Professional Standards Board (both of whom are independent of DOE) – lacks a strategic plan for K-12 education in the state.
 - In its place are the individual actions of the Legislature, the DOE, State Board and Professional Standards Board, each of whom issues periodic laws, regulations and decisions that impact, require time, attention and resources from, and often wrench the direction of the local schools toward performance and achievement
 - The combination – described as a web – of these requirements frustrates effective compliance with the core mandate of student achievement
 - Combined, they are perceived from the field where the work of education is done as removing ownership, motivation and flexibility
 - The sense is that, while local control is the mantra, the reality is that all ideas must emanate from the State House
 - The experience is that compliance with the web frustrates both motivation and flexibility to adopt, much less develop, more effective and more efficient models of K-12 education
- This sense – of being controlled, not supported, of having to comply, not create – was shared at all levels and from all perspectives as we received input from districts and schools.

2. Cumulative contract terms frustrate flexibility, accountability and performance

- While we did not expect to hear this from the leaders of teacher associations (and we did not), our other input from school leaders to school board leaders identified conflicts between rigid provisions in collective agreements and the mandate of higher achievement for virtually all students
 - Some of this input identified the impact on cost, driven by the focused leverage of the bargaining process and its political relationships, with the effect of increasing the per pupil cost of human resources and restricting their effective allocation
 - But most of the input reflected a view that the rigidity of the terms and conditions of such agreements – locked in place by the status quo provisions of PL 217 (existing terms may not be changed absent agreement by both parties) – was simply inconsistent with the need for flexibility
 - Some of the input noted the combined effect of state laws and contract terms
- In addition to increased costs, areas of concern noted included the following (the list is not exhaustive)

- Restrictions on school year and school day, such that the only way to accomplish professional development, for example, is to remove teachers from the classroom, with loss of continuity of instruction and cost of a substitute or to pay additional sums for the teachers to engage in work before or after their contractually limited time
- Restrictions on teacher assignment, driven in large measure by seniority, so that individual choice places teachers, not logic, performance or even peer-to-peer planning, much less the district's or school's overall educational plan
- Restrictions on evaluation of performance, and even school leader appearance in classrooms, frustrating efforts to hold teachers accountable for student achievement and to assist them to improve their performance
- In addition to the sense that under such restrictive conditions the rights of the teacher seem paramount to the education of the student for which the resources are allocated, there is the recognition that such restrictive provisions diminish if not eliminate the platform for school improvement
- It is not the presence of representation for teachers that was the source of expressed concern but the long-term effects of 30 years of locking in terms and conditions that conflict with the current need for flexibility in approaches and models to educate this and future generations of students to achievement that prepares them for life in today's world and economy
- Those to whom we listened had admiration for the educators and respect for their representatives. They were concerned that the terms and conditions of existing agreements were frustrating the effective education of the very students for whom the resources to employ the teachers were provided.

3. **Many educators have no mandate to upgrade their knowledge and pedagogy**

- The input we received noted the conflict of Indiana's tenure and life license statutes and the changed context and mandate of schools today
 - Indiana grants tenure to teachers after two years, a quite brief period of induction
 - Schools and districts must make decisions on teacher competency within that brief window, leading in some cases to the need to end a teacher's employment simply because the district has not yet confirmed competency and in other cases to retention of a teacher despite the need for further development (or competence to meet the challenge)
 - New teachers now must continue their professional development to retain their license, but teachers with adequate tenure (roughly 50% to 70% of all current teachers) have no obligation to continue to develop their subject matter knowledge and pedagogy
 - These are Indiana's most expensive teachers, generally at the top of the salary scale and with full benefits
 - These are often teachers whose tenure preceded computers and instructional technology, the habits of the millennial generation, the explosive developments in subject matter, and the increasingly innovative pedagogy now in practice
- Collectively these educators are the majority of those in the schools today
- Indiana leaves them with no mandate to improve their knowledge or their practice

4. Special education regulations divert resources, attention and time on task

- As we received input on this issue, people were quick to separate compassion (for the few students who have disabilities precluding them from effective mental engagement) from concern (for all other students, for whom effective preparation for success in some form of post-secondary education is essential for their future life and work). The tension is not the fault of the educators, but it is their reality.
- Special education regulations frustrate schools' ability to focus on providing effective instruction to the vast majority of their students that is essential to prepare them for success in post-secondary education. This involves professional time, student time and financial resources:
 - Multiple educators removed from their classroom obligations to many students to deal with the isolated circumstance of one student (case conferences and other meeting time required for Individual Education Plans)
 - Resources well above, often dramatically above, the annual per student expense, required to provide in-school services to a single student or to fund – through the schools – off-site services for the individual
 - Interruptions within learning time for many students caused by the in-class behavior of one student and the necessary responses to it
 - The use of legal process to enforce the rights of the single student irrespective of the resulting effects that diminish both time and resources for the many students
 - As such legal process unfolds, schools often are mandated to send special education students out of the county or state at huge costs paid for by the schools
 - School nurses and similar resources just to care for the child
 - Often 1 adult to 1 child, for feedings, toilet changes
- These issues clearly have some source in federal obligations; they may also be derived from state interpretation of federal obligations
- Over time, federal mandates for special education have grown, while federal funding for the same has decreased as a percentage of overall funding for such students
 - This drains resources from the core curriculum
- Most importantly, the imbalance and interference from special education mandates frustrates schools' ongoing mandate – from NCLB for all students to achieve, from PL 221 for Indiana schools to improve their education of all students, and from the Education Roundtable for schools to educate all students for success in post-secondary education

5. Indiana's student assessment system is incomplete, ineffective and interfering

- Administering ISTEP in the Fall has multiple negative consequences
 - It delays assessment of student gains from the prior school year, frustrating educators' ability to begin the school year knowing where each student left off the last
 - It precludes use of summer to provide partial catch-up or full remediation to students who end the prior year below the level of achievement they need to succeed in the next school year
 - It obligates educators to use the first weeks of each school year simply to refresh students or to focus them on the contents of their learning from the prior year, deferring curricular progress until after the ISTEP is given six weeks into the year

- Its reported results of progress in the last year come so far into the current year as to make it effectively irrelevant to current year instruction
- Fall administration unlinks district, school and educator accountability for performance – as measured by the gains of the student during the year for which content is assessed – and thus frustrate improvement across the spectrum from educator planning to professional development to rewards for gains and consequences for incompetence
- Districts and their educators have attempted to gauge student progress during the year by use of a multiplicity of assessment methods, without the benefit of state leverage in purchasing or state support in managing or interpreting the results
- Districts, schools and educators have no organized base of available assessments of students' dimensions for success at the start of the school year, which if available and combined with results from administration of ISTEP at the end of the prior year would provide an analytical foundation for starting the year with momentum in instruction and learning
- There is no assessment for 1st and 2nd grade, which if available would help guide educators to improve basic student skills before ISTEP begins in the 3rd grade

6. Facing the effects of misdirected inefficient spending, districts cut critical resources

- The net effect is painful for districts, particularly in the face on continuing fiscal constraints, as they try to rationalize a high fixed cost structure, locked into inefficient practices by regulatory and contractual restrictions, and forced uses of funding, with the effect that the districts often must cut into instructional expense because of the fixed costs of buildings, benefits and other obligations

7. Priority of professional development and technology is difficult to find

- Both professional development and technology – critical to organizational capacity, instructional delivery and achievement – are submerged in Indiana's current chart of accounts for K-12 schools
- There is some indication of professional development – recorded staff development expenses rose 125.6%, to \$91 million (1% of all expenses)
- There is limited visibility to technology spending, which is not reported separately from other expenses

Technology coordinators and data processing moved from roughly \$10 million in 1993 to \$73 million in 2003 (0.8% of all expenses)

RECOMMENDATIONS

A. More Effective Governance And Support

1. Unify all K-12 education and related functions and authority into DOE

- Unify the functions and authority of the Professional Standards Board (teacher preparation and certification), the State Board of Education (education rules and regulations), the various entities that regulate facilities construction and bidding processes, and any other K-12 education related entity into the DOE, so that the schools and the public have a unified source for leadership of mission and creation of support for educator performance and student achievement

2. Eliminate functions that are not directly focused on achievement by K-12 students

- Shift Adult Education (both mandate and budget) to services provided by sources such as the state's community college system or other providers of remediation
- Solicit the federal government to work with Indiana to resolve the conflict between special education students who have needs better addressed in a medical model and the majority of students whose needs can only be addressed by focused learning
- Seek input from schools as to other similar circumstances

3. Flip DOE from compliance to support for achievement, flexibility and efficiency

- Narrow DOE's functions to
 - Setting goals
 - Supporting achievement and efficiency
 - Assessing results and analyzing expenditures
- Redo the Department of Education to eliminate functions unrelated to mission, convert from compliance mentality to support mode, and align to educator performance and student achievement
 - Listen to school leaders and educators out in the state to learn from them which functions within state government frustrate achievement and which support it and why and how
 - Obtain input from national and international resources to determine which functions within state government actually support student achievement in preparation for success in post-secondary education and why and how
 - Restate DOE's mission to align with the mandate for preparing virtually all students for success in post-secondary education
 - Realign DOE's functions, budget and staffing to switch from confirming compliance to enabling performance
 - Use input from districts and schools to drive funds to build capacity for performance, preserving both a broad range of qualified providers and local options as to use
 - Use and reinforce existing program resources (Indiana Principal Leadership Academy, Service Center programs, etc.) to build educator capacity for performance
- Create support offices in DOE for achievement and efficiency

- Implement a support office within DOE for the express purpose of listening to cost concerns from districts, referring to them cost-saving ideas, and supporting their identification and implementation of a variety of strategies to reduce costs. No regulation, just support.
- Constantly consider efficiency initiatives, actions and opportunities
 - Fox River provides in its report a compendium of developing practices from around the country that seek efficiencies; the DOE, districts and schools can access this
 - Fund an independent and non-partisan entity whose mission includes
 - Analyzing expenditures at the state, district and school level in search of more effective allocation and efficient use of resources in pursuit of student achievement; and
 - Supporting local efforts toward the same goals (for example, by assisting zero-based budgeting that prioritizes student achievement)
 - Hold an annual effectiveness and efficiency planning conference for, by and of the districts and schools. Address there the challenges and opportunities of simultaneously achieving operating and other efficiencies, creating educational flexibility, and driving the benefits of both to the work of preparing the students for post-secondary success.

B. More Efficient And Effective Use Of Taxpayer Resources

1. Establish clear priorities and persistent expectations for student achievement

- Times of fiscal crisis and constraint require difficult decisions as to use of resources: tight budgets force clear priorities
- Indiana's budget is beyond tight; we face a huge deficit
- Educators in the schools, historically expected to "do it all," also need clarity as to the priorities for their time and attention
- Those priorities should be made clear and acted upon from the State House to the classroom
- Student achievement to prepare students for success in the later learning that is required whether they go to higher education, as most will, or to training or apprentice programs, as some will, should be the absolute priority
- That priority should be honored in all decisions of the state, districts and schools
- Other uses of funds may need to be reduced or even eliminated

2. Make funding simple, predictable and aligned to achievement

a. Shift to baseline per-pupil funding with complexity adjustments

- Examine a per pupil funding system (the money follows the student) that more rationally allocates state-provided resources to student populations, with a (complexity) adjustment where necessary for indicators of need but also where such additional dollars must be spent in flexible environments and innovative ways focused directly on student achievement.
- Stop duplicate funding to districts for charter school student enrollments
- Eliminate the minimum guarantee
- Eliminate the re-ghoster provisions

b. Eliminate budgetary silos to enable local decisions and accountability

- Eliminate the categorical funding and provide districts state funds without constraints, so they may make the most effective use of their available taxpayer resources and be held accountable for the results they produce with them
- Eliminate the categorical funding and thus enable and require district leadership to make the necessary trade-offs – between non-instructional and instructional expense, for example – that reflect fully unified budgetary control and responsibility

c. Provide predictable state level funding to support long-term decisions by districts

d. Reward instructional results that improve student achievement

- Review national and international approaches to positive rewards for educators whose efforts bring their students to the level of educational preparation needed for competition in the economy and enjoyment in the life of the 21st Century
- Consider statewide, regional and local rewards, based on actual and sustained results

3. Give schools maximum flexibility to focus on achievement

a. Repeal statutes and regulations to create flexibility in the school environment

- Repeal or revise state statutes to create flexibility in the school environment that permits maximum pursuit of performance and achievement.
- Use a “clean sheet approach,” by starting fresh and “zero-basing” all statutes and regulations against the single standard of student achievement
- Do the same for all of DOE and its administrative regulations and for the SBE and IPSB and any other agency with authority over schools

b. Amend PL 217 to eliminate accumulated contract restrictions on performance

- Amend Public Law 217, to eliminate the status quo provisions that preclude change other than with both parties’ concurrence, and to either
 - Eliminate collective bargaining altogether, or
 - Obviate all terms in current agreements other than salary and benefits and restrict collective bargaining to salaries and benefits, or
 - Obviate all terms in current agreements and require agreements whose terms visibly align to student achievement in preparation for success in post-secondary education.
- Enable local districts to involve teacher representatives collaboratively in planning and discussions, but leave authority over terms and conditions with those accountable for performance
- Enable local districts and teacher representatives to establish school-based faculty-driven planning, unimpeded by legislation, regulation or contract, focused on student achievement

c. Move ISTEP to the end of the school year

- Assessment: Move ISTEP to the end of the school year
 - Offer districts a menu of assessment tools that may be used during the year, with freedom to use others if they see fit
 - Continue on the path to quick turnaround of results, so they may be used for remediation during the summer and teacher preparation for next steps with the student in the Fall
- Develop a broader range of evaluative (not necessarily test-based) methods, reflecting the range from basic skills to critical thinking to innovative and creative initiatives

d. Seek a new approach to special education with the federal government

- Special Education: Write the federal government and request an opportunity to test a new approach to special education, one where the state receives a block grant, without accompanying bureaucracy and red tape, for special education purposes (from students with severe developmental disabilities to barriers to effective learning in those students able to do so); where local districts have the freedom and flexibility to develop Individual Education Plans for such students, and to select providers of services to such students, without need for hearing and administrative or judicial litigation; and where the schools and districts are obligated to report on treatment and services provided and results achieved for such students. Seek the following:
 - Give districts and schools maximum flexibility to remove specific students (special education students without potential to learn, students for whom English is a second language, students with potential to learn and succeed in preparation for post-secondary education but with specific issues requiring attention) from the mainstream, temporarily or permanently, to resolve innovatively, flexibly, efficiently and effectively their different circumstances
 - Where legal recourse is appropriate, use mediation rather than formal hearings
 - Limit special education to students with true needs (not parental desire for assistance); refocus resources on the broader mandate to prepare virtually all students for post-secondary education
 - Move the student to another environment appropriate for the student but without draining resources from the core curriculum
 - Give local schools greater discretion in how to handle the circumstances
- In the interim, create an independent review forum to which schools could take (a) issues of interpretation and (b) conflicts between interpretation, requirement or practice and effective gains in achievement for other students affected.

e. Deal creatively with the realities of English as a second language

- Evaluate how not to put a student in a standard-paced classroom until the student can speak English
- Consider direct support for districts to access resources (human or technological) that will accelerate the student's learning of English

4. Support achievement, efficiency and analysis

a. Learn from innovative and creative approaches in Indiana and elsewhere

- Create a network of innovative educational practices, supported but not controlled by DOE, through which Indiana schools
 - May obtain access to the best information to guide their own innovations toward improved achievement
 - May present their own results from innovation for review

- Give greater exposure to initiatives in Indiana that combine achievement focus and efficient practice
 - Charter schools
 - Innovative schools, environments and approaches in traditional public schools

- b. Encourage and support the development, importation and use of new models**
 - New Models: Support and encourage the development, importation and use of new models focused on preparing virtually all students for success in post-secondary education.
 - Facilitate and support charter schools, both independently of and by districts themselves.
 - Facilitate and support new school models within traditional schools.
 - Create a position within the Office of the Superintendent, as part of the redo of the DOE, whose specific function is to respond to and resolve concerns by local educators, school leaders, superintendents or school boards that there is inadequate flexibility to implement their initiatives to increase achievement.
 - Have that same position report annually to the Superintendent, Governor and Legislature as to barriers to innovations and flexibility for achievement that are present for traditional schools but not for charter schools, so that all schools can have the optimal conditions to drive achievement.
 - Develop and fund a research consortium among statewide business organizations, municipal mayors and committed institutions of higher education to identify and disseminate innovative instructional practices targeted at preparing students for success in post-secondary education

- c. Improve access to leadership and teaching talent**
 - Lengthen the time to tenure; provide districts flexibility to accelerate tenure for quality teaching but also to defer tenure for those who need more development before a long-term commitment can be made
 - Enable districts to retain experienced teachers at less than full schedule pay in order to build up a pool of mentors available to support the development of young teachers

- d. Reinforce teaching as a profession and professional development as an expectation**
 - Reinforce teaching as a profession by ensuring that all educators, irrespective of their length of service, have the subject matter knowledge, pedagogy and dedication to prepare virtually all their students for success in post-secondary education
 - Eliminate life licenses absent meaningful, sustained professional development, and extend the obligation to continue professional development, individually and within the group of their school faculty, to ALL teachers,

irrespective of tenure, length of service, in order to maintain their license and practice in Indiana

- Extend the obligation for professional development related to mission, performance and achievement to each school's PL 221 school improvement plan
- Eliminate misdirected or "band aid" professional development
- Establish the context for educators to see professional development as related to their accepted mission, to receive it when they are fresh, and to treat it as a serious professional obligation
- Reward professional development that advances teacher performance and student achievement, by conditioning compensation increases on professional development
- Extend the expectations of educators met by professional development to the state's undergraduate schools of education and their curriculum
- Eliminate restrictions on scheduling and use of time, freeing educators, schools and districts to expand the school day, expand the school year, and then build professional development into the school day and the school year as needed, so that it is both "job-embedded" and "group focused," to bring their teachers' subject matter knowledge and pedagogy up to levels needed for performance and achievement, whether collectively for entire faculties or departments or individually for teachers desirous for or in need of improvement

e. Create and fund a coherent and sustained strategic K-12 technology plan

- Technology: Create and fund a coherent and sustained strategic K-12 technology plan for the provision of both equipment and services to schools in a manner that is useful to student achievement, flexible in resource selection and allocation and adequately funded
 - Support coordinated initiatives among central department officials doing planning and budgeting; regional service centers developing data bases and using consolidated approaches closer to the schools and districts to support effective technology use; local schools and districts managing technology budgets within the uncertainties of continuing funding; and collateral efforts by function-specific organizations (libraries, universities, CILC-CET, etc.) to support school and district technology initiatives
 - Provide all schools with the tools for performance and achievement, including, for school leaders and their educators, tools to analyze student performance data (NCLB, PL 221)
 - Replace the current reporting bureaucracy with a technology enabled streamlined reporting process, using available technology to improve the results and reduce the costs of reports from and to schools and districts

5. Seek efficiencies everywhere

a. Fox River recommendations

- We offer Fox River's recommendations, included in their report below and explored directly or indirectly in the Exhibits and the Reference Library they kindly provided, for further consideration, exploration and implementation by the DOE, the regional service centers, cooperative relationships among districts, districts themselves, and schools. We summarize them briefly here
- In their report and its exhibits, Fox River has provided an in-depth array of possible sources for cost savings and efficiencies in expenditure of K-12 resources. They were generated by Fox River first using comparison states with dimensions and data that they confirmed were adequately comparable to warrant use as a reference point. They range from a low of \$337 million to a high of \$479 million per year.
- Fox River addressed the cost-saving opportunities at various levels:

i. Decisions by districts and schools – Self-improvement

- At the district and school level, Fox River evaluated the potential for savings in non-instructional functions, assuming that districts and schools would own the first responsibility for analysis and cost-cutting decisions within their own environments. Fox River provided detailed cost saving initiatives gleaned from prior work in other states. They reference opportunities to reduce expenses by between \$47.1 and \$193.7 million per year, in the following functions, through local decisions made within school corporations:
 - Transportation, by \$6.8 to \$24.9 million
 - Food Service, by \$4.4 to \$15.9 million
 - Facilities Maintenance, by \$8.0 to \$24.0 Million
 - Cost Control & Personnel Systems & Benefits, by \$4.2 to \$17.5 million
 - Administrative & Instructional Technology, by \$0.3 to \$14.6 million
 - Facilities Construction, by \$9.8 to \$44.4 million (we note that Fox River assumed no change in existing bid laws or other applicable regulations)
 - Safety and Security, by \$0.4 to \$2.2 million
 - Educational Services Delivery, by \$7.7 to \$33.0 million
 - Management Structures, by \$5.1 to \$15.1 million
 - Community Involvement, by \$0.4 to \$2.1 million

ii. Decisions by districts – Restructure to centralize functions in service centers

- Under this strategy, Fox River estimated that districts could achieve savings in transportation, food service, facilities maintenance, systems, technology, and facilities construction by utilizing the same or similar centralization and service center contracting model used in the New York City schools. (New York City is more comparable to Indiana

than might be imagined at first glance -- \$10.6 billion in expenditures to Indiana's \$9.2, 1.1 million students to Indiana's roughly 1 million, and only 1,200 schools to Indiana's 1,981.)

- Fox River included in its recommendations both direct services strategies (the service center provides the services to the districts) and outsourcing strategies (the service center contracts for the services on behalf of the districts). Fox River estimates this strategy could save \$100 to \$150 million annually.

iii. Decisions by districts (or service centers) – Outsource to improve results

- Fox River's experience with outsourcing in educational and other contexts and their reference to an extensive literature search led them to estimate savings from outsourcing of transportation, food service and facilities maintenance that range from \$131.0 to \$146.0 million per year.

iv. Decisions statewide – Bidding of employee benefits

- Fox River evaluated Indiana's employee benefit costs, which are 3.6% higher than the national average, and concluded that using statewide bidding of employee benefits Indiana could save from \$150 to \$200 million, assuming such bidding merely reduced the costs to the national average.
 - Examine as well the health insurance coverage of retired teachers to identify opportunities for cost savings, cost sharing, earlier roll over to Medicare, or other means to reduce the cost to the state and districts of retirees.

As Fox River's analysis demonstrates, the savings projected in each of these strategies overlap to some extent, so that the net range of the four strategies is from \$337 to \$479 million in annual savings, or roughly 4% to 5% of Indiana's total K-12 expenditures in 2003.

b. Review consolidation of districts or functions (but keep schools small)

- Review consolidation as a means to drive further resources to direct instruction. District consolidation should be examined, but at two separate levels
 - School boards, arguably very close to the local community and its taxpayers and parents, should not be consolidated based solely on geography but should justify their continued existence with effective planning and execution focused on student achievement, educator performance and solid financial management (including effective allocation and efficient use of available taxpayer-provided resources)
 - Where school districts fall within cities and boards fail to improve achievement consistently with need for community quality of life and economic development,
 - Mayors should be provided the option either to stay out of school board selection, or replace elected school boards with appointed ones
 - Where school districts fail, mayors should have the option to consolidate the district with another contiguous district

- Rural areas should be given flexibility to consolidate functions while balancing need for local leadership with costs of individual organizations
- District boundaries should be reviewed in order to adapt them to changes in population and commuting patterns
- Functions below school boards – including insurance, transportation, food service, building operations and maintenance, inventory management and similar non-instructional support services – should be analyzed for opportunities to reduce expense and improve service by consolidating the services among districts and using resulting efficiencies and leverage to improve them (by better internal performance or by outsourcing them), with resulting savings earmarked for use in instruction that drives achievement
- Insurance consortiums provide an opportunity to both consolidate administrative functions and use consolidated purchasing for better costs and terms
- Co-op services could be expanded, particularly to deal with services unrelated to in-school student achievement (special education cooperatives, for example)
- While Indiana’s nine education service centers are potential providers of some of these services, they should not be given sole source rights to them but should have to compete with other possible providers, from the private sector or the public sector (municipalities, for example)
- Transportation planning should be left to local districts, in order to maximize parent and student access to multiple options (particularly in suburban and urban environments), but transportation purchasing can be consolidated
- Cooperative approaches to school staff development can support improved capacity for effective instruction

c. Stop the facilities arms race

- Combine all local funds (Capital Projects Fund, Debt Service Fund, Transportation, and Bus Replacement), so district leaders will be forced to consider the trade-offs inherent in building new buildings
- Wipe out all regulations of school construction and rebuild them, with an eye toward efficiency of expense, innovative use of space, and a focus on achievement
- Pay particular attention to elimination of regulations that increase cost
 - School specifications
 - Bid requirements and procedures

d. Take advantage of possible cooperative approaches

- Take advantage of possible cooperative approaches to leverage operational gains or resource acquisition
 - Some capital and operational costs – construction, utilities, technology, textbooks, other standard supplies – warrant consideration of statewide purchasing
 - Some needs and services – from transportation to professional development – warrant consideration of consolidation either within

appropriate regional circumstances (transportation) or across appropriate professional communities (professional development)

- Cooperative approaches enable both greater leverage to improve quality and pricing and broader possibilities to avoid captive, sole source providers
- Insurance and benefits, where costs have multiplied without commensurate increase in value contributed to student achievement, are prime candidates for consortium-based purchasing with open market bids
- Technology offers substantive opportunities to leverage multiple benefits through cooperatives, from more effective professional development, to remote but live delivery of courses to small populations of students, to collaborative conferencing
- District and school innovations are developing but their growth is frustrated by lack of an intentional technology plan
- Educational service centers can manage performance data for schools and districts within their regions, supporting local improvement and feeding state-level review at the same time
- In urban and perhaps suburban environments, the opportunity exists to combine school needs and community needs within community-wide systems
 - For example, transportation systems, security, broadband access and technology infrastructure all provide opportunities to engage with comparable municipal needs
 - Similar logic can apply to those for whom English is a second language
 - Such increased efficiency and buying power should not come with increased bureaucracy

e. Reward operational results that improve efficiency

- Utilize long-standing private sector and developing public sector approaches to enable non-instructional employees to share in efficiency gains made possible by their own ingenuity and efforts

6. Stop dictating inputs and let schools start driving results

C. Improved Financial Analysis And Reporting

- 1. Align analysis to rigorous baselines**
 - Annually test financial trend lines for the state as a whole, for districts and for schools against baseline measurements of efficiency, including
 - Historical reference points
 - Changes in taxpayer circumstances (per capita income, for example)
 - Prior year expenditures
- 2. Create a new K-12 financial management system**
 - Create a new K-12 financial management system that enables transparency, analysis and understanding, efficient use of available resources and alignment of expenditures to districts' and schools' new mission
- 3. Restructure the K-12 chart of accounts to support analysis, planning and reporting**
 - Restructure the K-12 chart of accounts for the purpose of informing fact-based resource allocation decisions and include school and student level financial data, rather than school corporation level data alone
 - Ensure that the new chart of accounts enables effective reporting to the federal government as well (Fox River's report addresses this)
- 4. Provide tools for financial planning and analysis with common software and training**
 - Provide each school, district and corporation with common software and training to record, retain, report and analyze both school-level and district-wide expenditures
- 5. Utilize common, understandable means and methods for reporting financial results**
- 6. Require annual local analysis and biennial state analysis of expenditures**

D. Redirect All Savings To Drive Achievement Or Return Them To The Taxpayers

In any environment, taxpayers are entitled to comfort that the funds they provide are being used for the intended result with the maximum efficiency.

In the current environment, when the state's budget is in crisis and fiscal constraints abound, it is even more important to ensure that taxpayer provided resources either are driven with effective and efficient means to the highest need and priority results – in this case, student achievement that prepares them for success in the learning they will do in post-secondary environments (from college to apprenticeships) and life – or are reallocated to resolve the budget crisis.

Taxpayer resources should never be wasted. But this is a time when their use must be evaluated with particularly clear eyes to ensure that K-12 education – at all levels – is allocating them effectively and using them efficiently. If not, they should be returned to the taxpayers.

K-12 Subcommittee

Indiana Government Efficiency Commission

Conclusions & Recommendations

November 8, 2004

Taxpayer Focus

What is the financial condition of our state?

We are in current fiscal crisis

and

We will continue to experience fiscal constraint

How much does Indiana spend on K-12 Education?

**In 2003,
all-in (from all federal, state and local sources),
we spent**

\$9,275,000,000

\$9,578 per student

of taxpayer resources on K-12 education in Indiana

How much has K-12 spending grown?

All-In K-12 Spending

1993

2003

Total

\$5.477 Billion

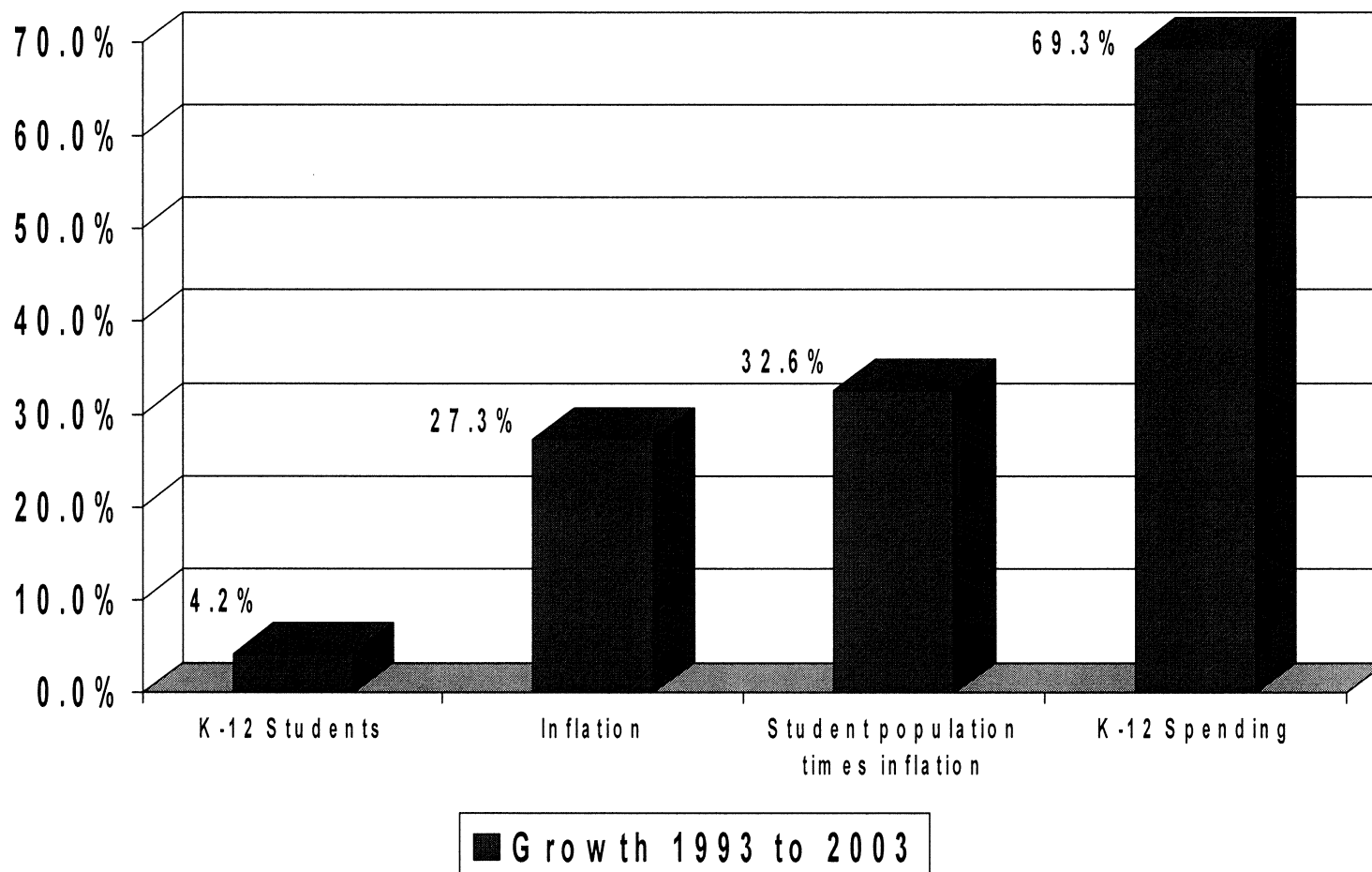
\$9.275 Billion

Per Student (ADA)

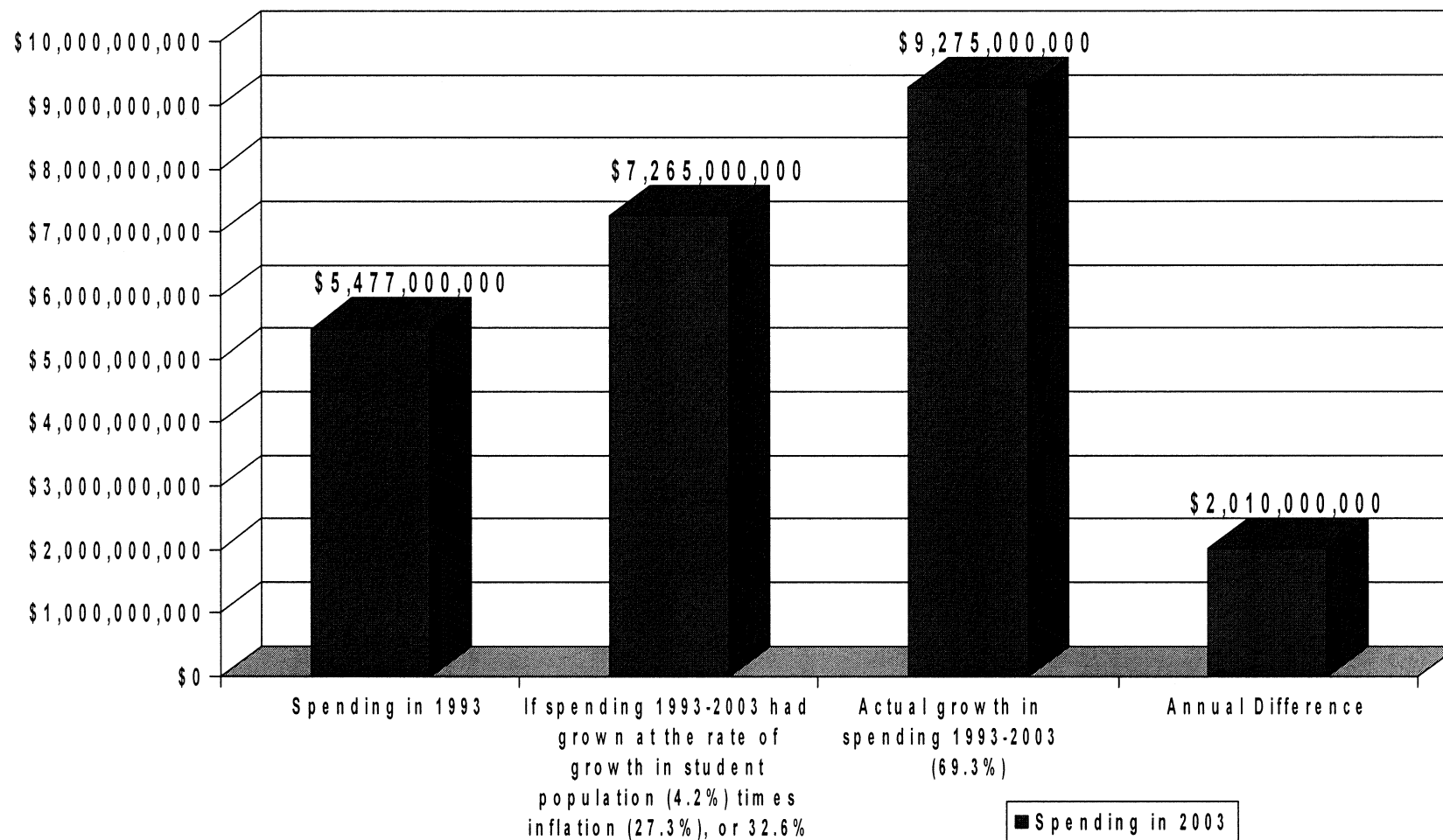
\$5,897

\$9,578

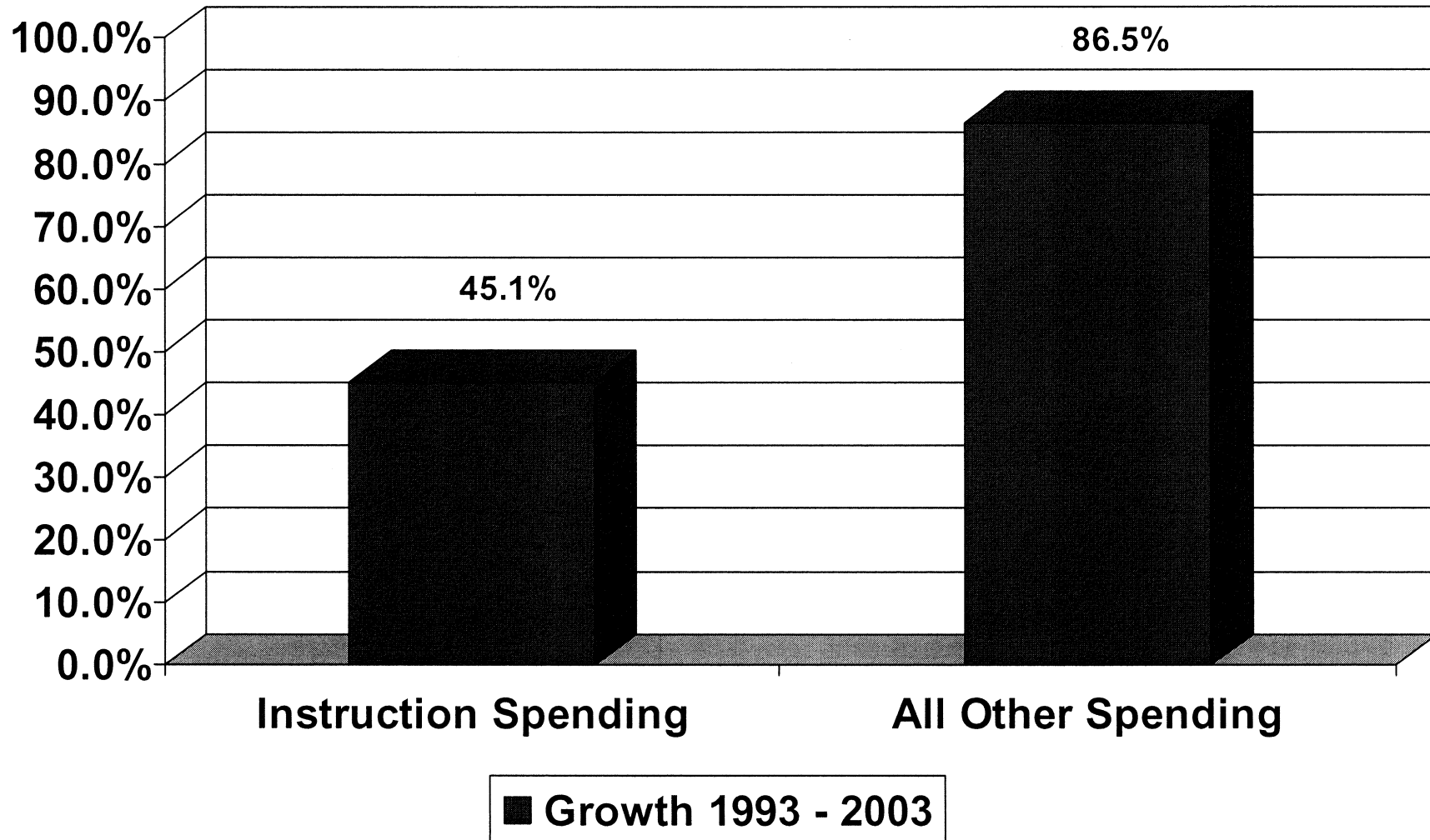
How much has K-12 spending grown?



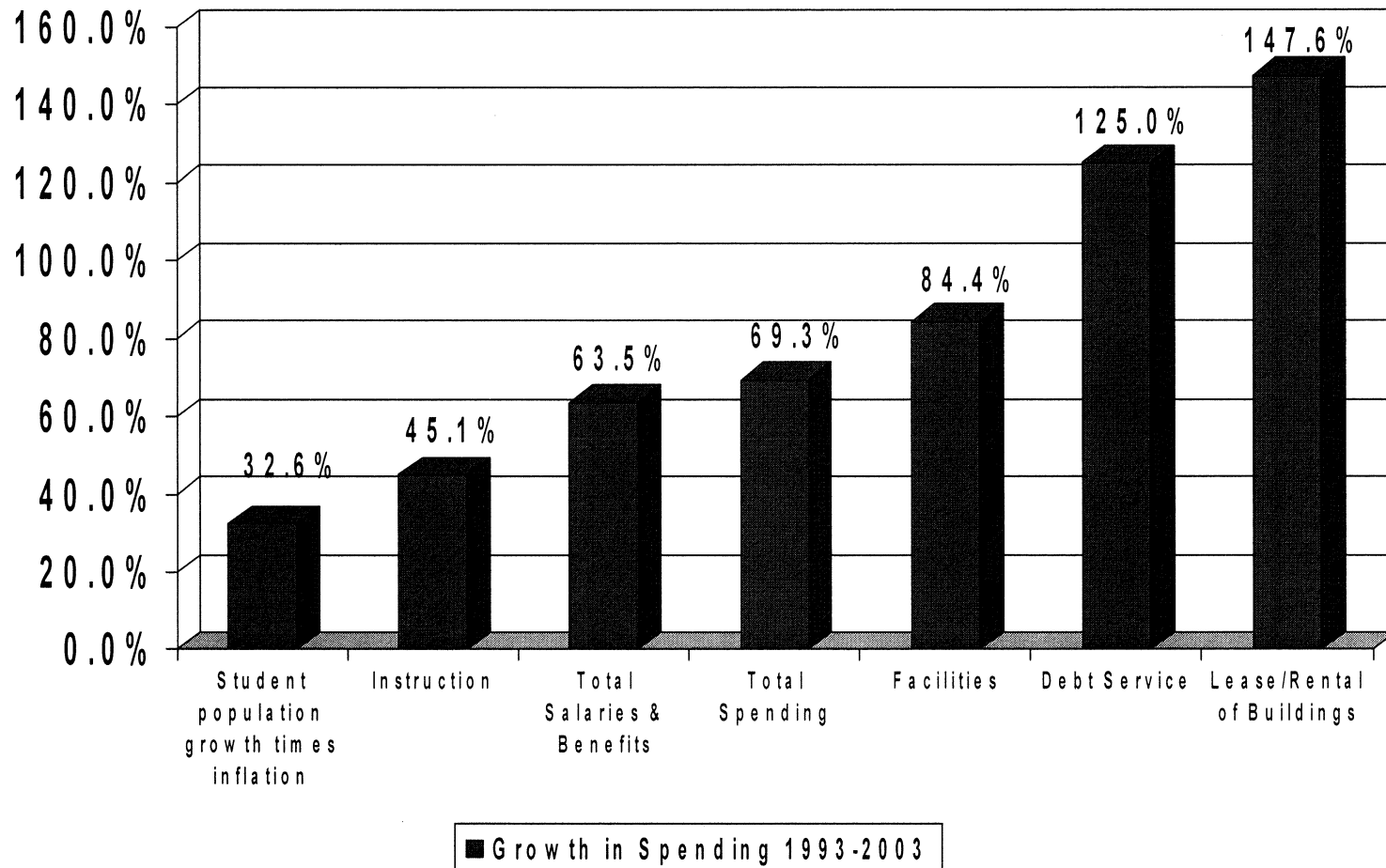
How much has spending grown?



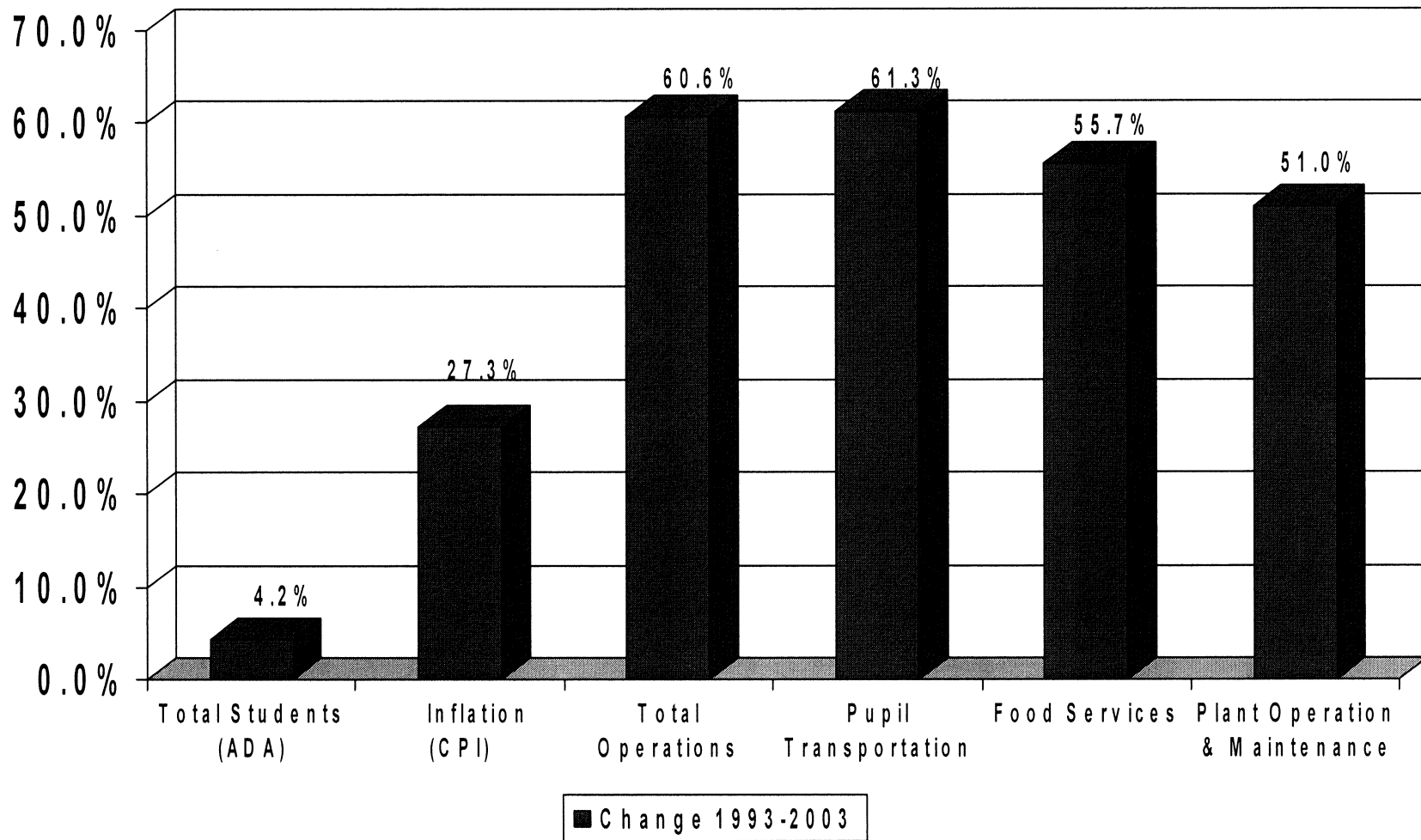
Where has the growth in spending gone?



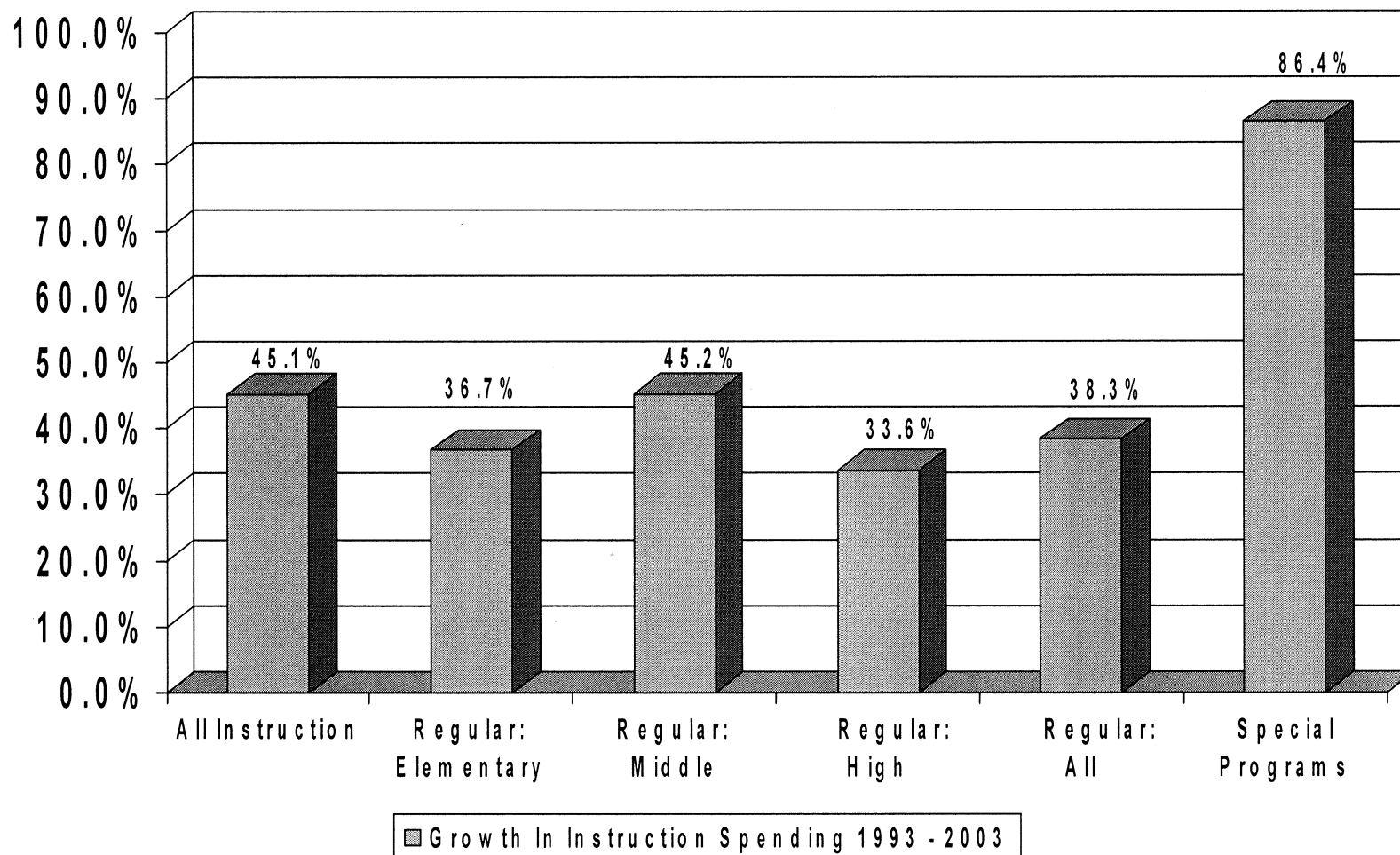
Where has the growth in spending gone?



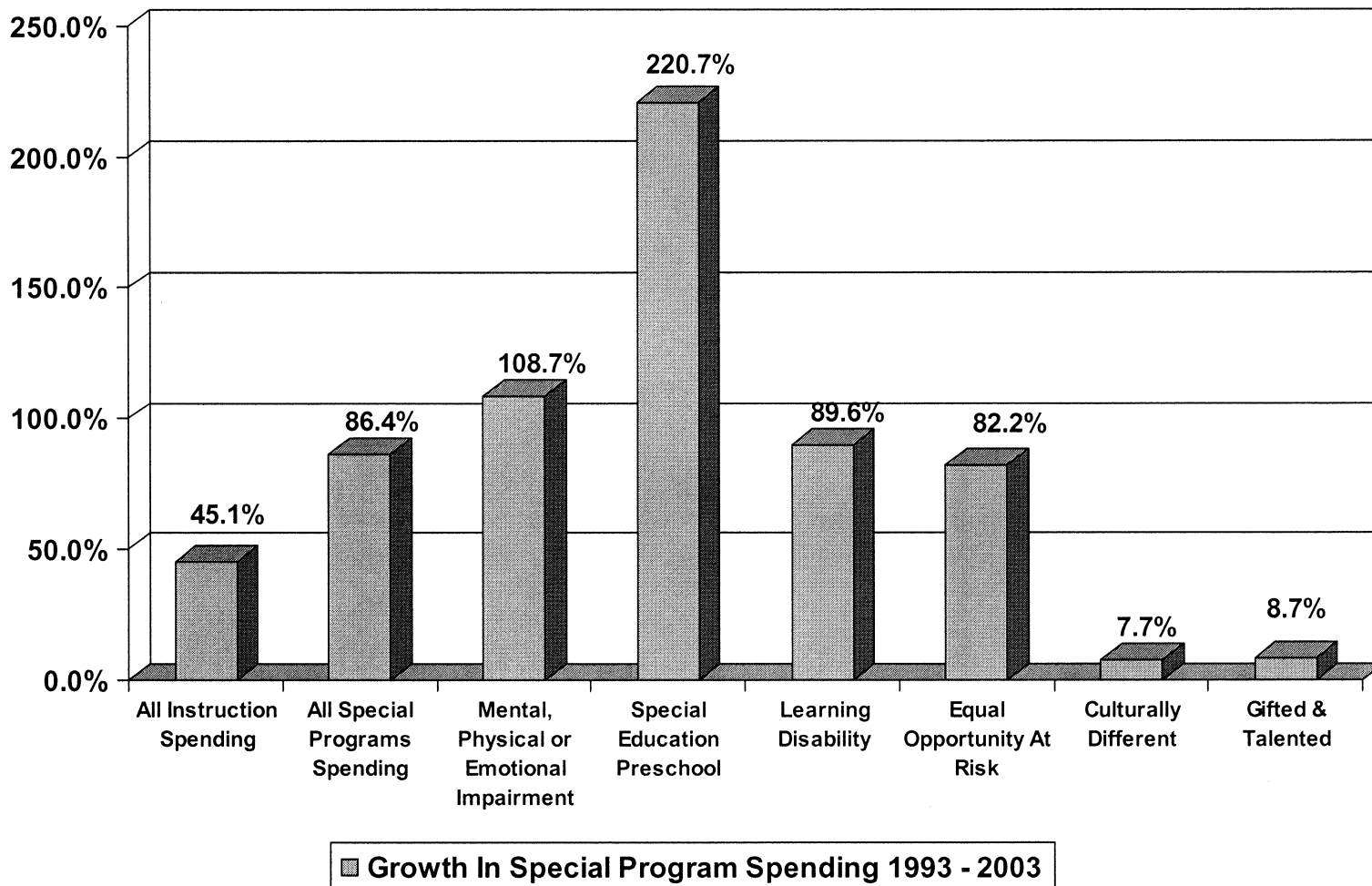
Where has the growth in spending gone?



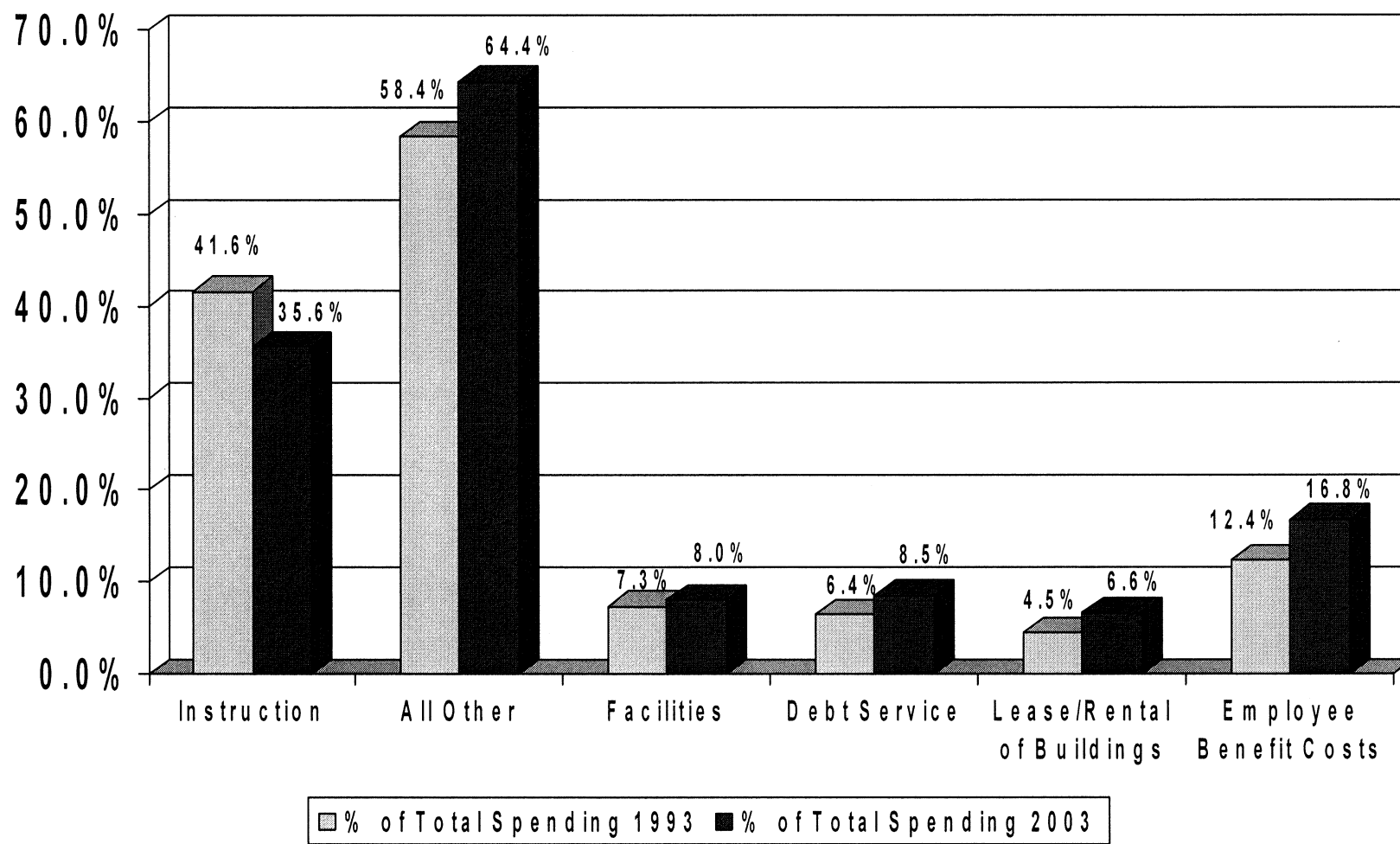
Where has the growth in instruction spending gone?



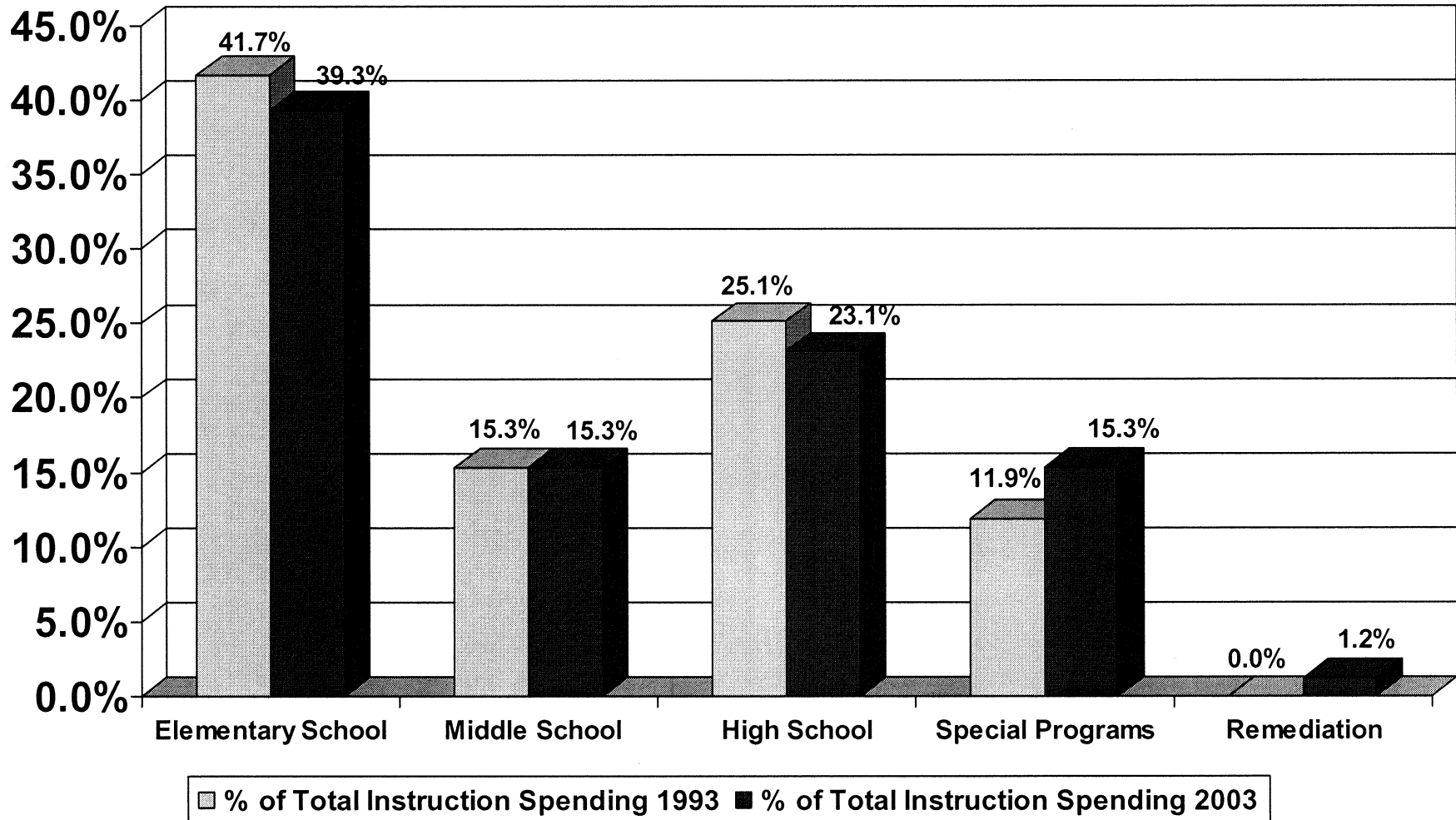
Where has the growth in instruction spending gone?



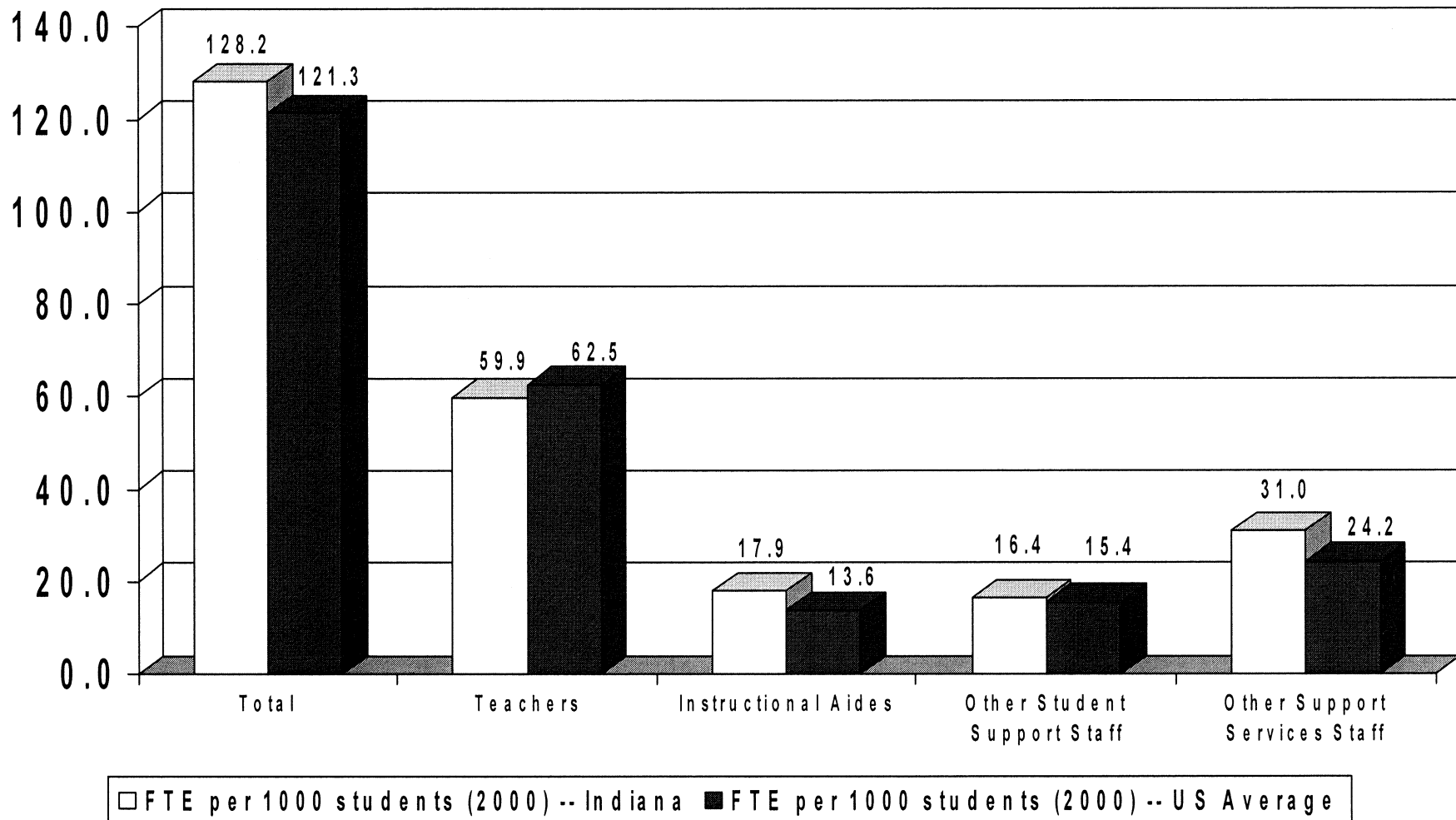
How has our K-12 spending emphasis shifted?



How has our K-12 spending emphasis shifted?



How are our K-12 human resources allocated?



What factors have driven up K-12 spending?

Uncontrolled Spending Decisions & Patterns

- **Total compensation is at the high end of the country**
- **Operating expense has grown twice the inflation rate**
- **We have prioritized facilities**
- **Employee benefit costs have surged**
- **Special program spending has jumped**

What factors have driven up K-12 spending?

Regulations, Restrictions and Structure

- **Construction regulation & process drive up costs**
- **Legislative & administrative mandates drive up costs**
- **Decision processes drive up costs**
 - **Legislative & Administrative**
 - **Collective Bargaining Terms & Conditions**
- **School district structure weighs against efficiency**

What factors have driven up K-12 spending?

An Ancient & Ineffective Financial System

- **Financial processes support audits, not analysis**
- **No one is responsible to analyze K-12 expenditures**
- **Dispersed control clouds results and accountability**
- **Decision processes deny schools predictability**
- **The system lacks effective visibility and analysis**

Student Focus

What do we need from our K-12 schools?

Prepare virtually all students for college

“College readiness should be an expectation not only for traditional college-bound high school students, but for all students at the high school level.”

“Studies of the skill and knowledge that employers need in the workplace show with increasing clarity that their expectations look very much like those in higher education.”

“No longer do students planning to go to work after high school need a different and less rigorous curriculum than those planning to go to college.”

Crisis At The Core: Preparing All Students For College and Work, by ACT (2004), p. iii, quoting research by Somerville & Yi and the American Diploma Project

What factors have impeded achievement?

Restrictions

- **Laws & regulations emphasize control & compliance over innovation, improvement & performance**
- **Cumulative contract terms frustrate flexibility, accountability & performance**
- **Special requirements divert resources & attention**
- **State assessments are ill-timed, ineffective & interfering**

Recommendations

How do our K-12 schools achieve the results we need within the fiscal constraints we will have?

- 1. Establish clear priorities and persistent expectations for student achievement**
- 2. Make funding simple, predictable & aligned to achievement**
- 3. Give schools maximum flexibility to focus on achievement**
- 4. Support achievement, efficiency and analysis**
- 5. Seek efficiencies everywhere**
- 6. Stop dictating inputs and let schools start driving results**

How do our K-12 schools achieve the results we need within the fiscal constraints we will have?

1. Establish clear priorities that and persistent expectations for student achievement

- **Define and reinforce persistent expectations of preparing virtually all students for success in post-secondary education**
- **Align the entire system to that result**

How do our K-12 schools achieve the results we need within the fiscal constraints we will have?

2. Make funding simple, predictable & aligned to achievement

- **Shift to baseline per-pupil funding with complexity adjustments**
- **Eliminate budgetary silos to enable local decisions**
- **Provide predictable funding to support long-term planning**
- **Reward instructional results that hit achievement goals**

How do our K-12 schools achieve the results we need within the fiscal constraints we will have?

3. Give schools maximum flexibility to focus on achievement

- **Unify K-12 education under DOE and flip from auditing compliance to supporting performance**
- **Repeal statutes and regulations to create flexibility in the school environment**
- **Amend PL 217 and eliminate accumulated contractual restrictions on performance**
- **Move ISTEP to the end of the school year**
- **Seek a new approach to special education with the federal government**

How do our K-12 schools achieve the results we need within the fiscal constraints we will have?

4. Support achievement, efficiency and analysis

- **Learn from innovations and success in Indiana and elsewhere**
- **Encourage development, importation & use of effective models**
- **Improve access to leadership and teaching talent**
- **Reinforce teaching as a profession and professional development as an expectation**
- **Develop a coherent and sustained strategic plan for K-12 technology**

How do our K-12 schools achieve the results we need within the fiscal constraints we will have?

5. Seek efficiencies everywhere

- **Independent analysis suggests possible savings of \$337 million to \$479 million per year by finding efficiencies in non-instructional spending**
 - **Self-improvement decisions by districts and schools**
 - **Centralizing functions in service centers**
 - **Open bidding to improve results**
 - **Statewide bidding of employee benefits**
- **These do not include savings from elimination of statutory, administrative or contractual restrictions**

How do our K-12 schools achieve the results we need within the fiscal constraints we will have?

6. Stop dictating inputs and let schools start driving results

- **Establish a performance culture**
 - **A hard focus on student achievement – preparation for success in post-secondary education and work – as the priority use of available funds**
 - **New flexibility for schools to drive a culture of performance that uses available resources to create necessary results**
 - **Constant search for effective and efficient use of taxpayer resources in support of student achievement**
- **Stop telling schools how to spend money, allocate resources and use time and start analyzing what results they actually produce**
 - **Measure costs against a rigorous baseline**
 - **Measure achievement against a rigorous goal**

Conclusions

It's not the people – It's the system

- **In both the rising cost to taxpayers and the restrictions on education of students, it is the system that needs to change**
- **The cumulative effects of legislation, regulation and negotiation – from a time when neither efficiency nor achievement were as essential as today – now conflict with those critical goals**
- **Change the system and free the people to apply their best efforts to serve the students with achievement and the taxpayers with efficiency**